

**ANNUAL REPORT
OF THE NATIONAL BANK OF THE REPUBLIC OF KAZAKHSTAN
FOR 2007**

**ALMATY
2008**

List of used abbreviations

President of the Republic of Kazakhstan	President
National Bank of the Republic of Kazakhstan	National Bank
Agency for Regulation and Supervision of the Financial Market and Financial Organizations of the Republic of Kazakhstan (Financial Supervision Agency)	FSA
National Fund of the Republic of Kazakhstan	National Fund
Government of the Republic of Kazakhstan	Government
Ministry of Finance of the Republic of Kazakhstan	Ministry of Finance
Ministry of Justice of the Republic of Kazakhstan	Ministry of Justice
Agency for fighting economic and corruption crimes of the Republic of Kazakhstan (Financial Police)	Financial Police
Agency for civil service affairs of the Republic of Kazakhstan	Agency for civil service affairs
Agency of the Republic of Kazakhstan on statistics	Statistical Agency
Commonwealth of the Independent States	CIS
Eurasian Economic Community	EurAsEC
Common Economic Space (Free Market Zone)	CES
Shanghai Organization of Cooperation	SOC
International financial organizations	IFO
US dollar	US\$

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INTRODUCTION

Over the years of its independence, Kazakhstan has built an open economy integrated into the world economy. Globalization, generally, positively influencing the economy of the country, at the same time, has increased the world shock impact risks which affected Kazakhstan in 2007.

In early 2007, the world economy demonstrated upward trends. Financial markets grew, banks fixed the record-breaking profits, corporations became stronger due to mergers and acquisitions, the number of financial innovations grew thereby bringing new opportunities for making profit. At that period, the economic development of Kazakhstan was mainly determined by such positive trends of previous years as continuing growth of export goods prices and domestic macroeconomic stability. Manufacturing industry, real estate market, construction industry, trade and banking services market developed at high rates (over the first six months, loans grew by almost 47%, deposits of residents in the banking system grew by 24%). Over the first 7 months of 2007, the efforts of the National Bank were aimed at the choice of such monetary policy instruments, which would decrease the inflation rate.

However, the US subprime crisis developed into the global financial and banking crisis.

According to analysts, the US subprime crisis is the final part of a traditional business cycle. It started from the large-scale reduction of interest rates in 2000-2002, which resulted in the growth of prices for many assets, first of all, for the real estate. The strongest effect was observed in the USA, where the interest rates were lower than in Europe. A cheap and easy loan was secured with financial innovations (like mortgage bonds) allowing banks to assign responsibility for loans to third persons. Banks offered mortgage loans not at the expense of their own funds, but at the expense of borrowed assets, which required to attract new loans constantly and to support this financial conveyor; in addition, banks increased the volume of substandard loans causing a boom on the real estate market. From late 2006 through early 2007 certain investors started to fix profits as soon as the growth of the American real estate market slowed down and mortgage borrowers encountered solvency problems after a series of interest rate growths. In late July 2007 through early August 2007, markets found themselves in the pre-crisis state, which has resulted in a large-scale sell-off of financial assets, decrease of the financial assets value, and serious problems with creditors.

Thus, global markets faced liquidity problems, and a number of central banks, in particular, the US Federal Reserve System and the European Central Bank were performing credit interventions to support their domestic banking systems.

As a result of the portfolio capital outflow from the developing markets, most developing countries had almost no access to any foreign borrowings.

The perspectives of economic growth in developing countries became poor, just like in leading industrial powers, which in the short-period prospect expect a slowdown in the economic development.

According to OECD, in 2007 the average growth rates of seven largest economies of the world will drop by 0.1 %, down to 2.2 %. In 2007 the US GDP grew by 2.2%. It was the lowest one over the last five years.

Asian countries were almost not affected with the economic crisis. China and India remain to be the leading locomotives of the region. In 2007 the Chinese economy grew by 11.4%, Indian economy grew by 8.7%, and Japanese economy grew by 2.1%.

Since August 2007, the economy of Kazakhstan has experienced some manifestation of the US subprime crisis.

Like banks in many developing markets, Kazakhstani banks, which developed mainly due to foreign loans, have had a limited access to foreign financing sources. Though the access to borrowing in the non-professional investor markets (through issue of bonds, IPO) was closed, and syndicated loans could be still attracted from professional investors, nevertheless, Kazakhstani banks, which had previously made considerable foreign borrowings, encountered liquidity problems.

Though the growth rates of the banking sector have decreased, accompanied with the negligent outflow of deposits and the increase in loans rates, domestic banks have not stopped to provide credits to economy.

As for the real sector, the economic growth rates fell from 10.6% in 2006 to 8.5% in 2007, and it is expected that within the next few years we will face a further economic slowdown, especially in such

industries as construction and financial activity. The growth rates of the construction industry will be hindered due to insufficient loans, and the financial industry will be hindered due to the restricted access to foreign borrowing resources.

In 2007, the macroeconomic indicators of Kazakhstan were affected with both global financial markets and with the shocks in the global food markets. Poor harvest in the main manufacturers of grain crops and growth of the world production of alternative fuel types based on vegetable raw materials (bio-ethanol) have resulted in the decreased supply of relevant goods on the world market which has caused the price growth.

These factors and such long-term factors as the population income growth, low competition level on the market of goods and services, and growth of energy resource prices being spurred with the oil price growth contributed to the appearance of a significant inflationary background of the economic development.

Thus, in 2007 the situation was characterized with the banking liquidity problems and inflation pressures growth. Therefore, the National Bank was faced with a dilemma: either to support the banking system stability or to keep the price stability.

In this situation the National Bank has given the priority to the objective of the banking system stability rather than to the objective of the price stability. Meanwhile, the National Bank decided that bank system instability may lead to bank panic, payments default crisis, flight of depositors, which finally may result in the banking crisis. In addition, the banking system instability can negatively affect other financial market segments exposed to the system crisis because certain financial organizations are subsidiaries of banks or are included in bank conglomerates. Particularly, the accumulation pension funds can suffer (because of a significant share of the financial instruments in the investment portfolios of Accumulation Pension Funds).

In 2007, as a response to the external instability threat the Government, the National Bank and Financial Supervision Agency strengthened the State's role to regulate the economy and to interfere in private structures' activities. The joint measures allowed to respond operatively to global financial markets instability.

The main principles of the interaction of state authorities in case of crisis events were determined in the Financial Stability Memorandum concluded by the Government, the National Bank and the Financial Supervision Agency. Financial stability annual reports issued since 2006 by the National Bank jointly with Financial Supervision Agency became a basis for the early detection of problems in the financial system. In the report for 2006 the growth of banking external borrowings was named as one of main factors leading to the financial system vulnerability.

In 2006-2007 the National Bank and the Financial Supervision Agency took certain measures to limit the banking external borrowings including the adoption of new minimum reserve requirements and regulating measures to restrict the banking external borrowings in order to minimize the financial risks of banks.

In addition, in the second half-year of 2007, the National Bank performed large-scale interventions to support the banking system experiencing liquidity problems as a result of capital inflows slowdown due to stricter loan conditions in the USA.

As a whole, the difficult macroeconomic situation and the decision to support the banking system stability rather than the price stability resulted in a failure to keep the forecasted inflation reference points in spite of the measures taken. In the second half-year of 2007 inflation started to grow rapidly every month, and finally the average annual inflation rate amounted to 10.8% meanwhile the range was forecasted to be within 8.2% to 9.2% under the high world oil prices scenario set forth in the Monetary Policy Guidelines for 2007-2009.

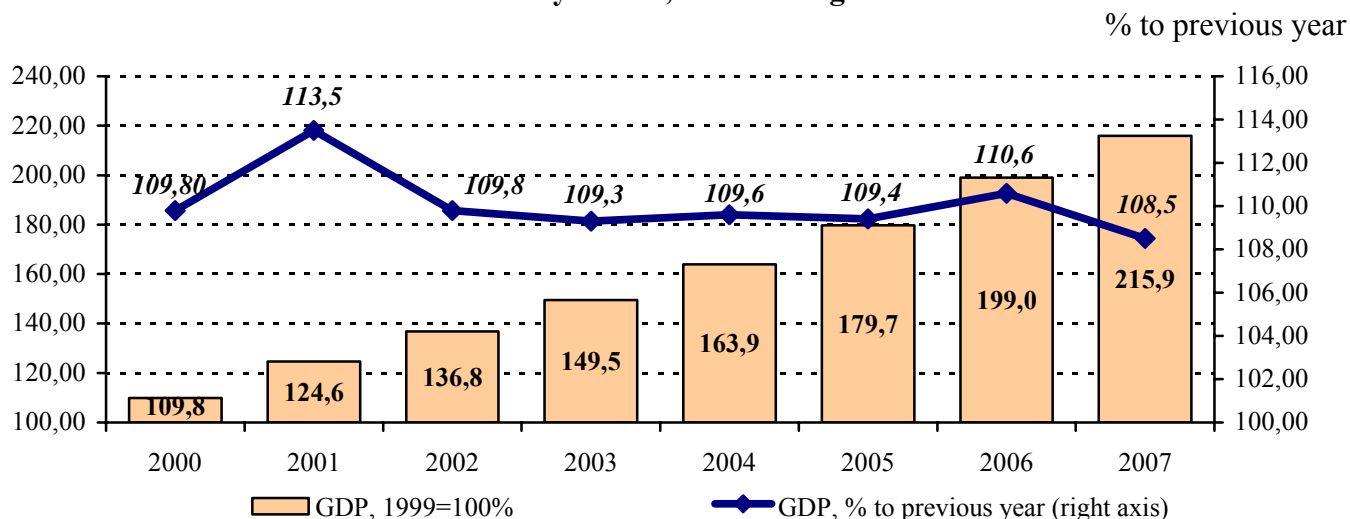
I. ECONOMIC DEVELOPMENT

1.1. Real sector of economy ¹

According to preliminary data, in 2007 the GDP in current prices amounted to KZT 12.7 trln. Meanwhile, the real GDP growth slowed down to 8.5% as compared with 10.6% in 2006. The real GDP more than doubled as compared with the indicator of 1999 (figure 1.1.1).

Figure 1.1.1

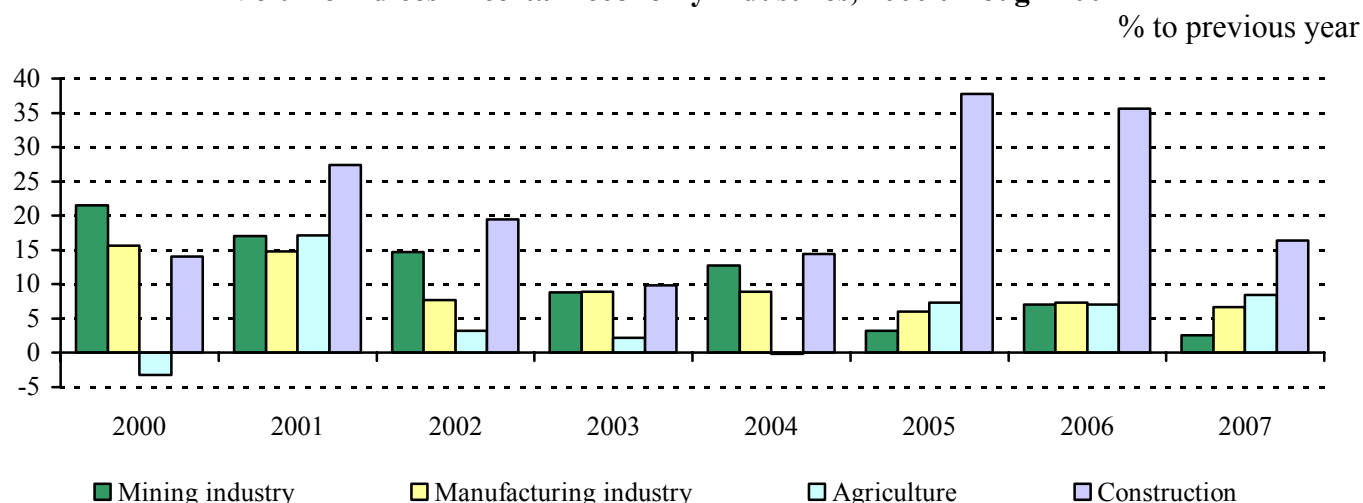
Real GDP dynamics, 2000 through 2007



The slowdown of the GDP growth rates in 2007 was a result of the slowdown in the construction and mining industry growth rates. In the goods production structure, the construction volume grew by 16.4% (in 2006 it was 35.6%), agriculture - by 8.4% (7%), industry - by 4.5% (6.9%) including the growth in the mining sector by 2.6% (7%), growth in the manufacturing industry by 6.7% (7.3%), growth in the power and gas generation and distribution by 7.3 % (figure 1.1.2).

Figure 1.1.2

Volume indices in certain economy industries, 2000 through 2007



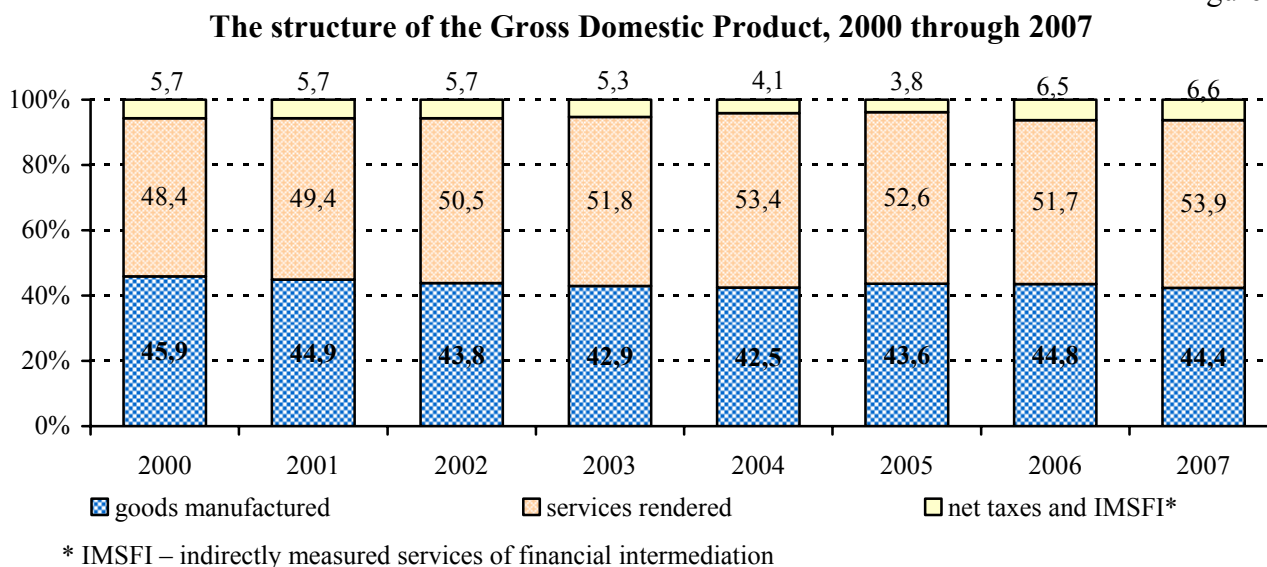
The main share in the GDP is taken by the manufacturing industry (28.1%). In 2007, in its structure the share of the mining industry was 53.8%, and the share of the manufacturing industry was 40%, whereas in 2000, the shares of these industries were 45.5% and 45.3%, respectively.

The production of services grew at the expense of such sectors as financial activity - by 41.8%, communication services - by 33%, hotels and restaurants - by 10.8%, and trade - by 10%.

¹ According to Statistical Agency

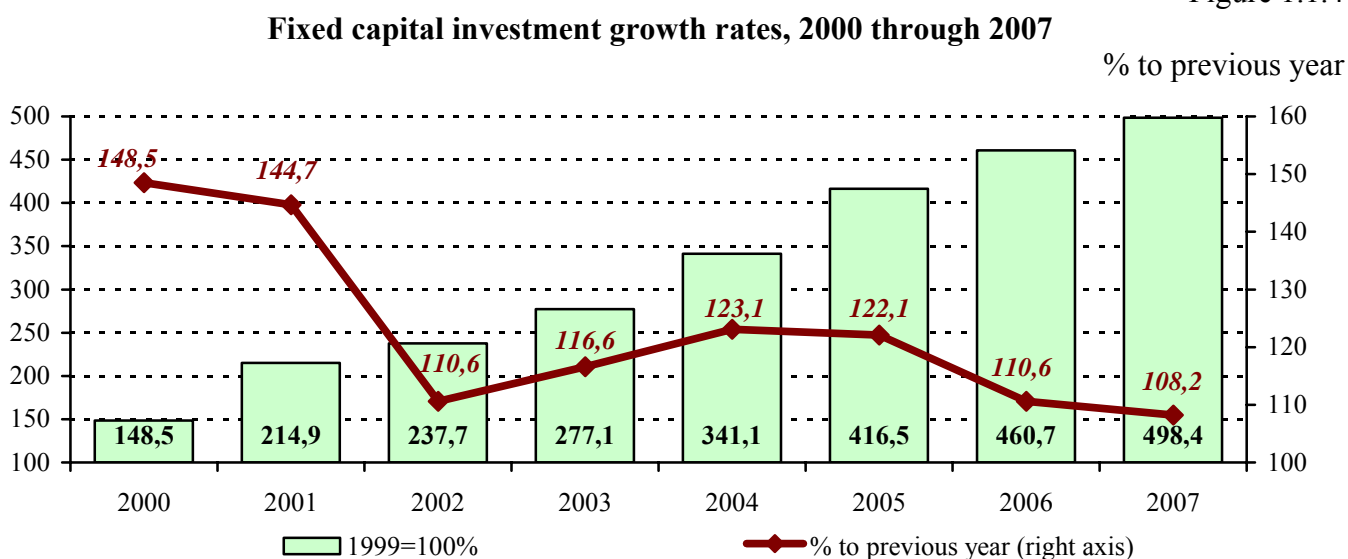
Services continue to occupy a big share of GDP (53.9%), meanwhile since 2002 this share has been steadily exceeding one half of the GDP production (figure 1.1.3).

Figure 1.1.3



The national economy growth over the considered period is mainly caused by the enterprises' investment activities. However, the growth rates of fixed capital investment fell down from 10.6% in 2006 to 8.2% in 2007. Nevertheless, over the period from 2000 to 2007 the volume of fixed capital investment has grown five times (figure 1.1.4).

Figure 1.1.4



The main sources of fixed capital investments were the equity funds of economic agents and foreign investments amounting to 54.4% and 18% respectively. The share of state budget assets amounted to 15.7%, and that of the borrowed funds amounted to 11.9%. Oil and natural gas extraction (27.9% of overall fixed capital investment), real estate activities (25.4%), transport and communication (13.4%) and manufacturing industry (10.5%) became the prioritized industries for investments.

In 2007, the volume of construction works and services, taking into account an additional assessment, was more than that of 2006 by 15.3%. It was spent 26.2% more assets than in 2006 for residential construction. 8,103.8 thousand square meters of total area of residential buildings were built, which is 29.8% more than that of 2006.

The transportation flows grew by 4.9%, services rendered by communication enterprises grew by 33%, including rendered to households - by 31.1%.

Although in the second half-year of 2007 banks slowed down credit activities, as a whole, in 2007 banks provided credits to economy by 54.7% more. Such a growth of credits contributed to a continued economic growth.

In the breakdown by industries, credits were actively provided to such industries as trade (21.3%), construction (17.2%), manufacturing industry (9.7%) and agriculture (3.6%). In 2007, the volume of credits provided to the trade industry grew by 42.4% and achieved KZT 1,549.3 bln, credits provided to the construction industry grew by 89.4% and achieved KZT 1,246.9 bln, credits provided to the manufacturing industry grew by 35.1% and achieved KZT 705.1 bln, credits provided to the agriculture grew by 26.8% and achieved KZT 262.2 bln.

Economically active population in 2007 (according to preliminary data) amounted to 8.2 million people, which is 2.5% more than that of the last year. In 2007 the number of employed population grew by 3.1% and achieved 7.7 million people. In 2007 as compared with 2006 the number of unemployed dropped by 4.5% and amounted to 597.2 thousand people. **The unemployment rate** amounted to 7.3% in 2007, and over the last 7 years it has been decreasing (from 12.8% in 2000).

In 2007 **the average monthly nominal wage** (according to preliminary data) was KZT 53,238, exceeding the level of 2006 by 30.6%, or in real terms by 17.8%. In 2007 as compared with the previous year the wage of employees grew in all industries. (Appendix 1 to section I sub-section 1.1, figure 1.1.1). The wage of the health service employees grew by 38.3%, and that of the employees of the transport and communication, the education and the public service grew by 25%, of the employees of the financial sector grew by 23%, the agricultural employees - by 20%, the construction employees - by 19%.

In 2007, **the average nominal population income per capita** (estimated) was KZT 25,846, which is 29.8% higher than that of 2006. In real terms, the income grew by 17.1%.

1.2. Monitoring of the enterprises of real sector

Over 2007 the number of enterprises being monitored has increased from 1,444 to 1,530; and the number of medium and large ones grew from 951 to 989. Given the voluntary participation of the enterprises in the monitoring, such a growth was achieved because the enterprises became more interested in the participation in the monitoring of the National Bank due to the improvement of the analytic reports sent to them by the results of the monitoring. The enterprises were selected for the monitoring taking into account the regional and the industrial structure of the economy based on the enterprises representation selection calculation.

In 2007 the production (works, services) sales income of the enterprises being monitored amounted to 7,764.4 KZT bln, which is about 45% of the total production sales income in the economy.

The results of the quarterly monitoring of the enterprises allow to make a conclusion in respect of the current economic situation and main trends in the real sector of economy in 2007.

Most enterprises (at least 80%) stated that there is either increased or unchanged demand for finished products, which became the main reason for the production volume growth. The enterprises experienced the highest demand for their products in the 2nd and the 3rd quarters of 2007. In the 4th quarter of 2007 the demand growth rates have decreased, especially in the construction industry (Appendix 1 to section I subsection 1.2, figure 1.2.1), in connection with the growth of prices for finished products in the 3rd quarter, which was noted by 40.7% of the enterprises (Appendix 1 to section I subsection 1.2, figure 1.2.2).

The fluctuations of demand and prices for the finished products impacted the business activity and the financial status of the enterprises: the assets turnover ratio gradually grew by the end of the year (up to 22.1% in the 4th quarter). The enterprises preferred to finance their circulating assets at the expense of their own funds that was noted by about 80% of the enterprises.

In 2007, most enterprises (62.9%) noted growth of the prices for raw stuffs and materials (Appendix 2 to section I subsection 1.2, figure 1.2.3), which caused the fall of the sales profitability (before taxation) in the 2nd and the 3rd quarters. However, by the end of the year this indicator remained rather high (46.2%) exceeding the level of 2006.

The sales profitability rate of the mining industry (70%) as compared with other industries remains to be more attractive for investors. The profitability in the manufacturing industry amounted to 41.5%, in

the real estate activities, rent, and services rendered to enterprises - to 40.1%, the transport and communication industry - to 27.7%.

The interest rates of KZT and foreign currency loans notably grew in the 3rd and the 4th quarters 2007, in average, the rates amounted to 15.8% and 13.2% respectively (Appendix 2 to section I subsection 1.2, figure 1.2.4), and therefore, the number of enterprises which received loans substantially dropped from 36.2% in the 2nd quarter 2007 to 28.4% in the 4th quarter 2007 (in the 3rd quarter 2007 it was 32.5%). The highest drop was observed in the manufacturing and construction industries. (Appendix 3 to section I subsection 1.2, figure 1.2.5).

In 2007, most enterprises were not affected with the change in the exchange rate of tenge to USD, Euro or Russian ruble. Only in the 3rd quarter we observed that the number of the enterprises affected with exchange rate fluctuations, especially, KZT/US\$ exchange rate.

1.3. Public Finance²

The high progression of revenues shows the dynamic and qualitative economic development, growth of its efficiency, particularly, of the non-oil sector grows while the tax burden decreases, i.e. VAT was reduced, the low flat scale of the individual income tax is introduced, and since the second half-year of 2006 all payments from oil sector are made not to the state budget, but instead are accumulated in the National Fund.

According to amendments to the Tax Code, since January 1, 2007, VAT is 14%. Thus, VAT is decreased by 1% every year.

In 2007, the revenues of the state budget grew by 23.5% as compared with 2006, and achieved KZT 2,887.8 bln or 22.7% to GDP (in 2006 it was 22.9% to GDP). The scheduled revenues plan was executed by 100.3%.

The tax payments in the revenues structure grew by 6.7% up to 18.5% to GDP (in 2006 it was 21.6% to GDP). The biggest growth of tax payments was noted in the international trade and foreign economic operations - by 36.8%, individual income tax payments grew by 33.9%, Value Added Tax payments grew by 28.5%, social tax payments grew by 25.0%, excises payments grew by 23.9%.

Non-tax payments grew by 3.3 times, up to 1.4% to GDP in 2007 (in 2006 it was 0.5% to GDP), which is caused by the growth of dividends on the state share holdings owned by state, as well as the growth of revenues from the state property.

The volume of the guaranteed transfer from the National Fund was KZT 258 bln.

Revenues from the capital sales grew by 25.0%, up to 0.7% to GDP in 2007 (in 2006 it was 0.7% to GDP), because land lot and intangible assets sales grew by 75.5%.

The state budget expenditures of 2007 amounted to KZT 2,678.3 bln or 21.0% to GDP (in 2006 they amounted to 21.1% to GDP). Meanwhile, the annual plan of financing expenditures in 2007 was executed by 98.5%.

Expenditures on the transport and communication industry (by 79.0%), defense (by 66.7%), culture, sports, tourism and information space (by 50.6%), housing and communal services (by 48.1%), fuel and energy complex and subsoil use (by 46.1%), manufacturing industry, architecture, town planning and construction industries (by 42.3%) grew most of all. As for the social sphere expenditures, the education expenditures grew by 39.2%, the health service - by 34.0%, the social security and social assistance - by 18.9%.

The budget loans granted in 2007 grew by 2.1%, and repayments on earlier granted loans grew by 1.9%. The volume of net budget lending grew by 2.3%, up to 0.1% to GDP.

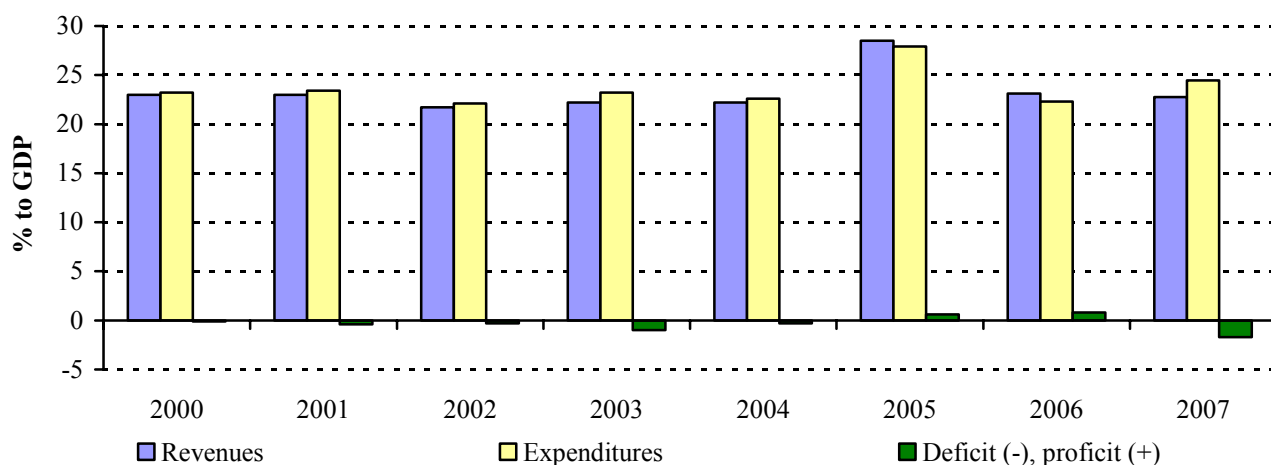
The state budget expenditures for the purchase of financial assets grew 3.7 times, and the revenues from the sale of financial assets fell by 82.6%. As a result, the balance of these transactions increased 4.3 times, up to 3.3% to GDP.

In 2007 the state budget was executed with a deficit of KZT 215.3 bln (1.7% to GDP), while in 2006 it was executed with a positive balance of KZT 81.6 bln (figure 1.3.1).

Figure 1.3.1

Execution of the state budget, 2000 through 2007

² According to Ministry of Finance



The income of the republican budget in 2007 amounted to KZT 2,221.5 bln, or 20.3% more than that of 2006.

The tax payments to the republican budget decreased by 2.5%, and the revenues from the fixed capital sales fell by 0.8%. Non-tax payments increased 3.5 times as compared with 2006, payments of official transfers grew 3.4 times.

The expenditures of the republican budget achieved KZT 2,068.3 bln, and grew by 22.7% as compared with 2006, meanwhile all expenditures, except for official transfers, increased.

The volume of net budget lending of the republican budget in 2007 fell from KZT 15.8 bln to KZT (- 3.0) bln owing to the growth of loans repayment volume. The balance of the financial assets transactions increased by 4.1 times as compared with 2006.

As a result, the republican budget was executed with a deficit of KZT 212.5 bln (in 2006 we observed a positive balance of KZT 54.7 bln).

In 2007 local budgets had a positive balance of KZT 9.1 bln because the revenues grew by 48.5% (in 2006 there was a positive balance of KZT 19.8 bln), the expenditures grew by 46.8%, the balance of the financial assets transactions grew 6.3 times, and the net budget lending grew by 8.7%.

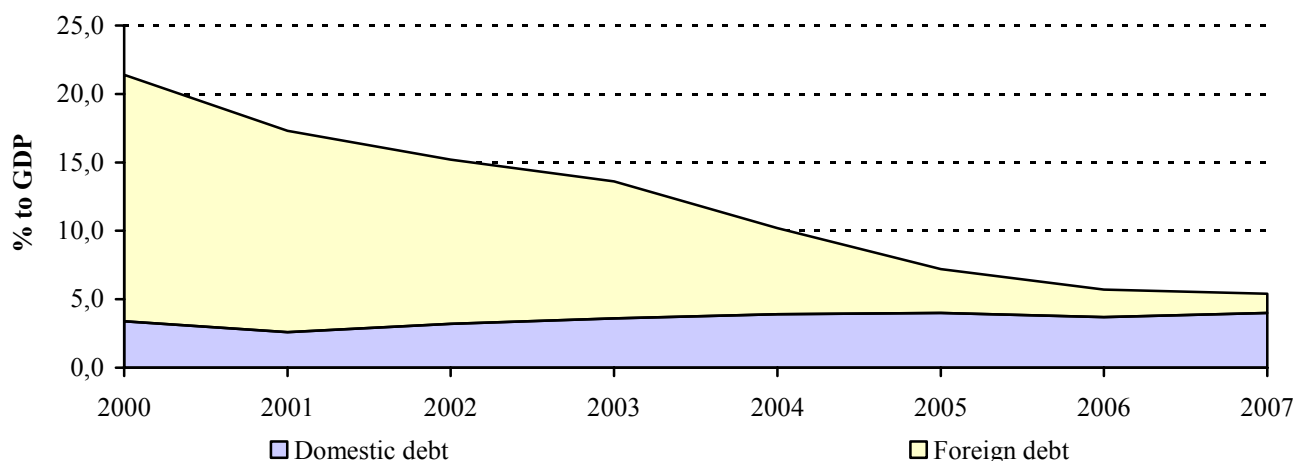
By the end of 2007 the government domestic debt amounted to KZT 511.7 bln (4.0% to GDP), and over the year it has increased by 35.1% (figure 1.3.2).

The domestic debt growth was caused mainly by the increase of the long-term treasury notes of the Ministry of Finance, and indebtedness on these notes grew 1.5 times.

In the end of 2007 the state short-term treasury notes were issued. By the end of 2007 their share in the debt was 10.9%. The volume of other domestic debt instruments fell by 5.4%.

Figure 1.3.2

Debt of the Government of the Republic of Kazakhstan, 2000 through 2007



In 2007 as compared with 2006 the foreign debt of the Government fell by 20.1% to US\$ 1.4 bln. The external debt guaranteed by the State decreased by 9.4%.

1.4. Balance of payments and foreign debt

High world prices of energy resources and other primary goods as well as dynamics of the banking borrowings influenced balance of payments of Kazakhstan (Appendix 1 to section I subsection 1.4.).

Export of goods, which is one of the main sources of foreign currency revenues, amounted US\$ 48.3 bln during 2007, and it grew by US\$ 9.6 bln as compared with 2006. About 59% of overall exported goods were oil and gas condensate, and over 18% of export were ferrous and non-ferrous metals. The export grew due to growth of prices of goods exported by Kazakhstan, and due to growth of physical volumes of export.

As compared with 2006, import of goods was stimulated with the growth of domestic investment and customer demand, and in 2007 it exceeded US\$ 33 bln, i.e. grew by US\$ 9 bln. The import of investment goods and intermediate industrial goods establishing over 76% of official import grew by more than US\$ 6.6 bln, and the import of consumer products (about 23% of the official import) grew by 2.3 US\$ bln.

Relatively moderate growth of trade balance surplus (net export of goods), which amounted to US\$ 15.1 bln in 2007, as compared with US\$ 14.6 bln in 2006, did not compensate sharp growth of current expenditures related with large-scale attraction of foreign investments. As a result, it led to significant growth of the current account deficit.

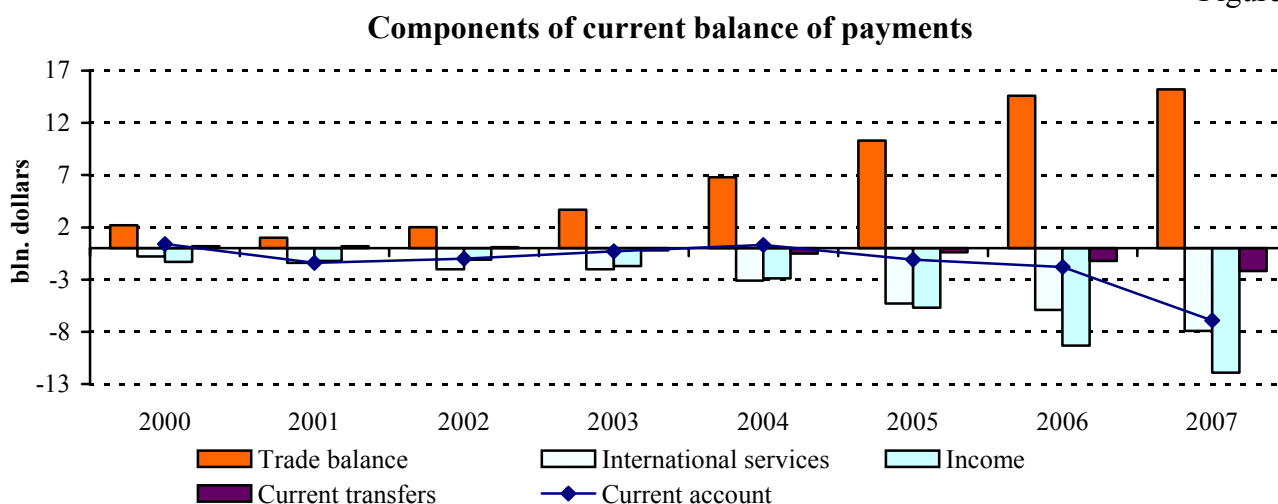
The fact that implementation of projects of designing and developing oil-and-gas field infrastructure with participation of foreign parent companies resulted in further growth of import of international services. In 2007, the international services balance deficit amounted to almost US\$ 8 bln, and it grew by more than US\$ 2 bln as compared with 2006.

High world prices of energy resources both ensures stable inflow of significant direct foreign investments in development of oil field infrastructure, and determines growth of incomes repatriated by non-residents. In 2007, incomes of foreign parent companies amounted to 10.3 US\$ bln (US\$ 7.6 bln in 2006), of which US\$ 8.8 bln were dividends and investments (US\$ 6.4 bln in 2006).

High growth of non-primary sector was mainly promoted with foreign loans of bank sector. The current account deficit was also caused by payments of interest on liabilities except for those related to foreign direct investments (FDI), in 2007 it amounted to US\$ 3.9 bln, of which about 81% were paid by bank sector. Taking into consideration wage of non-resident employees attracted by mainly foreign companies and construction enterprises, net outflow of resources on income balance was equal to US\$ 2.1 bln in 2007, and over the year it grew by US\$ 2.7 bln.

The net outflow of resources also grew with current transfers i.e. in the reporting period it amounted to US\$ 2.2 bln, i.e. it grew by 83% as compared with 2006. As a result, in 2007 the negative current external balance was US\$ 7.2 bln or 6.9% in relation to GDP as compared with deficit of US\$ 1.9 bln (2.4% to GDP) in 2006 (figure 1.4.1).

Figure 1.4.1



The current expenditures related with activities of foreign direct investment enterprises was financed at the expense of export incomes and FDI inflow.

In 2007 the gross FDI inflow in Kazakhstan including share capital inflows, reinvestments and loans provided by parent enterprises amounted to US\$ 17.5 bln (US\$ 10.6 bln in 2006). Most direct investments were made in mining industry, particularly, to finance projects on development of oil-and-gas fields and to make contributions to share capitals of Kazakhstan financial organizations.

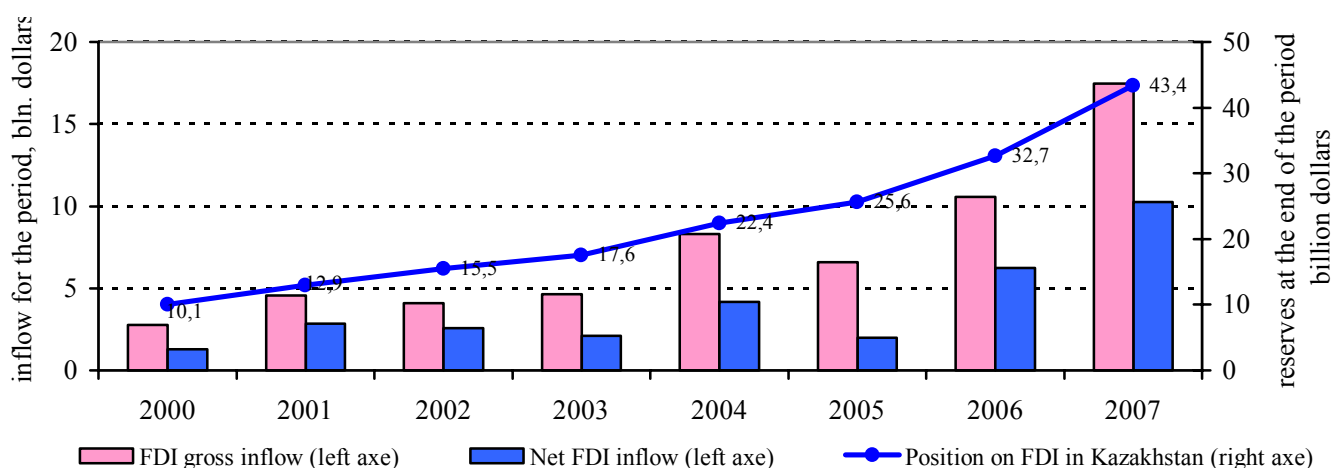
Taking into consideration the repayments of inter-company debts and growth of demands of subsidiary resident enterprises to parent companies, the net-inflow of loans from foreign parent companies was equal to US\$ 10.2 bln (US\$ 6.2 bln in 2006). As of the end of 2007, the total amount of FDI to Kazakhstan was equal to US\$ 43.4 bln, and it grew by 10.7 US\$ bln during the year (figure 1.4.2).

In 2007 residents invested more money to subsidiary foreign enterprises. The net outflow of direct investments abroad exceeded US\$ 3 bln during the year, and the share capital grew by US\$ 2.2 bln in the reporting period. The share capital of non-resident enterprises grew at the expense of investments made by Kazakhstan enterprises engaged in finance, intermediary services, trade and repair of cars, and construction, and at the expense of purchase of foreign real estate assets by residents.

The world market was favorable for oil exporters, and it supported steady inflow of considerable direct investments, meanwhile fluctuations of the funds attracted with bank sector were formed with contradictory trends of world capitals market.

Figure 1.4.2

FDI inflow and reserves to Kazakhstan



Thus, in the first half-year of 2007, with relatively low cost of resources in the international capital markets, the net inflow of loans secured with banks' operations with debt securities and loans exceeded US\$ 12 bln as compared with net-inflow of US\$ 5.2 bln in comparable period of 2006.

The foreign resource inflow considerably exceeded the current needs in repayments, and was not compensated with growth of foreign assets of private sector. Excessive supply of foreign currency formed due to financial account operations of the balance of payments strengthened KZT exchange rate because KZT was depreciated by the National Bank's operations in the internal currency market.

In the first half-year of 2007 the gold and foreign exchange reserves of the National Bank grew by US\$ 3.2 bln, of which US\$ 1.1 bln were obtained owing to transactions on the Kazakhstan Stock Exchange and inter-bank market. The nominal KZT exchange rate which was KZT 127 per 1 US dollar in late 2006, in May 2007 became equal to KZT 120 per 1 US dollar, and at the end of June 2007 it was equal to KZT 122.31 per 1 US dollar.

Since August 2007, the global financial crisis has worsened conditions of foreign borrowings for Kazakhstan banks. The cumbersome access to loans as compared with the first half-year occurred when the banks had to repay the loans attracted before. Because it was impossible to obtain any new loans to

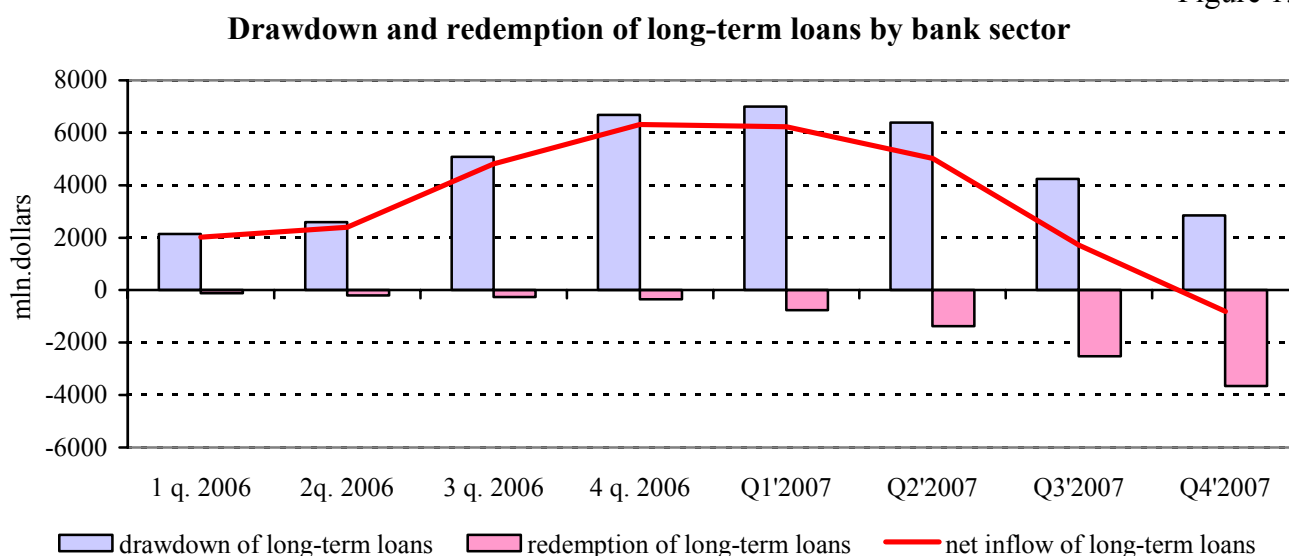
cover the existing foreign debts led to insufficient foreign currency liquidity while domestic need in financial resources remained high.

In the second half-year of 2007, banks succeeded to attract the new long-term (longer than 1 year) loans of US\$ 7.1 bln as compared with US\$ 13.4 bln in the first half-year of 2007. Taking into consideration payments to redeem existing loans, the net outflow of long-term and short-term external loans of the bank sector amounted to US\$ 0.7 bln (net inflow was about US\$ 11.4 bln in the first half-year of 2007) (figure 1.4.3).

At the same time non-residents' bank deposits grew by US\$ 0.5 bln in the second half-year of 2007 which partially set off the outflow of resources to cover foreign loans.

In 2007 the non-bank private sector (without inter-company indebtedness) succeeded to attract slightly more money, i.e. the net growth of foreign liabilities of private non-bank sector achieved US\$ 5.8 bln as compared with US\$ 5.1 bln in 2006.

Figure 1.4.3



Although foreign debt capital inflow sharply fell in the second half of the year, private sector foreign assets continue to grow. The foreign assets of bank sector grew mainly owing to loans provided to non-residents and growth of trade lending and growth of deposits placed in foreign banks.

In late 2007, the foreign assets of non-governmental sector (excluding the Government's and the National Bank's assets) were over US\$ 40 bln, and in 2007 they grew by US\$ 11 bln. Due to high oil prices, the foreign assets of the National Fund grew by US\$ 6.9 bln; in late 2007 they amounted to US\$ 21 bln.

As a result, in 2007 the net inflow of financial resources, except for international reserves of the National Bank amounted to US\$ 7.4 bln, and in 2006 it was equal to US\$ 16.1 bln. The inflow of financial resources was supported with transactions in the first half year of 2007 (net inflow was US\$ 7.7 bln), and in the second half-year, the net outflow of financial resources was about US\$ 0.3 bln.

Due to liquidity problems in the second half-year of 2007 in order to avoid any sharp short-term fluctuations of KZT exchange rate and to stabilize the situation in domestic currency market, the National Bank decided to satisfy the excessive foreign currency demand at the expense of its own reserves. In late 2006 the gross international reserves of National Bank amounted to US\$ 19.1 bln, in late July 2007 they amounted to US\$ 23.4 bln, and in late 2007 they amounted to US\$ 17.4 bln. These reserves allow to import goods and services during 4.7 months. In late 2007 together with the National Fund assets, the total national reserves amounted to US\$ 38.4 bln. (Appendix 2 to section I subsection 1.4 provides dynamics of Kazakhstan external sector indicators for the last three years.)

As of the end of 2007 the gross foreign debt of the Republic of Kazakhstan was equal to US\$ 96.4 bln (US\$ 74.0 bln as of the end of 2006), i.e. about 92.8% to GDP. The share of short-term debt (liabilities

with up to 1 year initial redemption term) of Kazakhstan residents was 12.2% as compared with 17.0% in 2006.

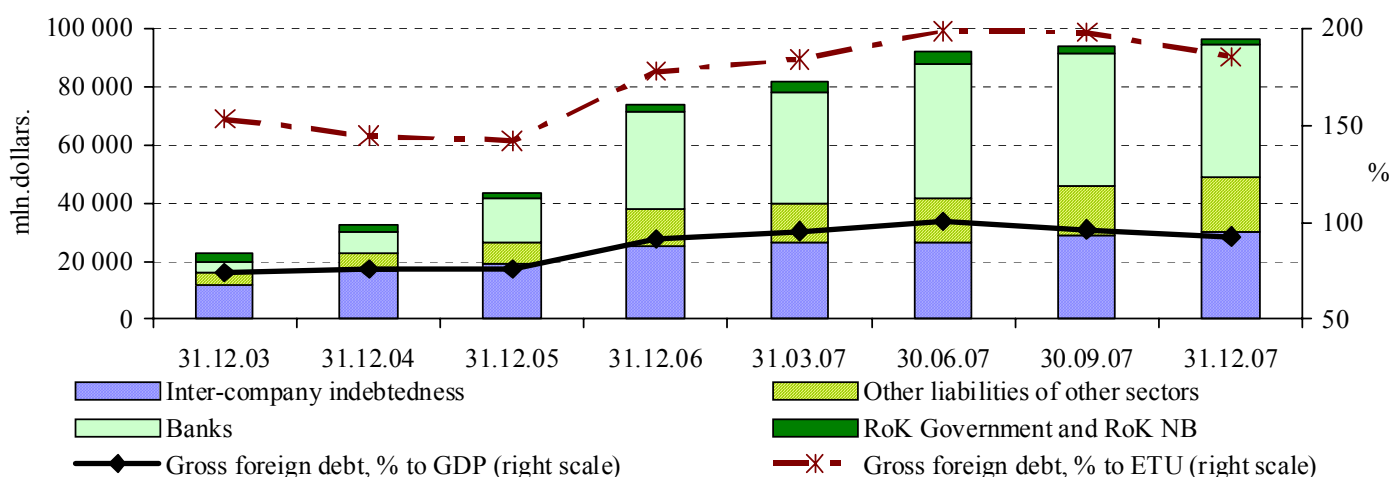
The national foreign debt including the Government's and the National Bank's liabilities is about 2% of total gross foreign debt which is equal to US\$ 1.6 bln as of the end of 2007. The national foreign debt decreased (from US\$ 2.6 bln as of the end of 2006) because non-residents left the market of the National Bank's and Ministry of Finance's short-term domestic liabilities in the second half-year of 2007.

The foreign liabilities of bank sector grew by US\$ 12.6 bln at the beginning of the year, and in late 2007 they amounted to US\$ 45.9 bln or 47.7% of gross foreign debt (US\$ 33.3 bln or 45% as of the end of 2006). The banks' foreign debt mainly increased in the first half-year of 2007, and in late June 2007 the banks' foreign debt amounted to US\$ 45.9 bln. In the second half-year the debt stayed at the same position due to sharp reduction of finance inflow and redemption of bank's foreign loans. The long-term liabilities (liabilities with initial term of redemption more than one year) prevail, their share is 86.7% of total debt liabilities as of the end of 2007, and 77.6% as of the end 2006.

As of the end of 2007 the foreign debt of private non-bank sector exceeded US\$ 48.8 bln, and it grew by US\$ 10.7 bln during the year. Most of these debts are direct investment liabilities related to inter-company indebtedness. As of the end of 2007, inter-company debts to non-residents amounted to US\$ 29.9 bln or 31% of gross foreign debt (US\$ 25.5 bln or 34.5% as of the end 2006). The foreign liabilities to non-affiliated lenders grew by US\$ 6.3 bln since the beginning of the year, and at the end of the year they amounted to US\$ 18.9 bln or 19.6% of gross foreign debt, and the one third of the sum was represented with short-term liabilities related to trade loans (figure 1.4.5).

Figure 1.4.5

Gross foreign debt of Kazakhstan (as of the end of the period)



The growth of the foreign debt and debt payments rose faster than export of goods and services which worsened the foreign debt cost to export incomes ratio. As of the end of 2007 the ratio of gross foreign debt to annual export of goods and services was 185.7% (178% in 2006), and the total sum of redemption and payments for gross foreign debt was 49% (28.2% in 2006). Appendix 3 to section I subsection 1.4 provides information about absolute and relative indicators of foreign debt.

1.5. Financial stability

In 2006 the National Bank and the Financial Supervision Agency focused on potential risks which may threaten financial stability if world market condition changes.

Particularly, the potential credit risks of the banks grew because the banks provided many loans to enterprises engaged in trade, construction and real estate activities; and because the currency of the assets and the liabilities of the legal entities did not match that of individuals; and because individuals' savings and incomes were more spent to redeem loans; in addition, because banks focused only on collaterals.

Secondly, it was stressed that the high foreign indebtedness of the banks would require the financial organizations to refinance their foreign liabilities.

The growth of economy and supporting factors contributed to further worsening of current balance of payments account, which caused the risks of adequacy of international reserves of the National Bank to grow, if any serious foreign shock occurs.

Generally, the analysis whether the banks precept the risks adequately showed that financial organizations more focused on current factors providing profit, meanwhile they did not fully assess any potential threats.

One of these threats was the global liquidity decrease as consequence of USA subprime crisis, and reduction of 'risk appetite' of the international investors. As a result, the financial stability of Kazakhstan was influenced with the following factors:

1. The banks started to use more actively the National Bank's refinancing instruments, and the National Bank started to intervene the money market in the conditions of uncertain liquidity and higher demand for foreign currency in the money market which was caused by banks' redeeming their loans to non-residents. The global liquidity deficit after the USA mortgage market crisis affected bank sector of Kazakhstan which was in many respects dependant on foreign lending. In such a situation, in the second half-year of 2007, regulation of short-term liquidity of banks helped relieve the financial market.

The National Bank regulated the liquidity of banks in a few ways: provision of short-term liquidity as refinancing loans, pre-term redemption of notes by the National Bank, and change of mechanism of calculation of minimum reserve requirements.

The National Bank also introduced some amendments to the Rules on provision of bank loans setting forth that short-term loans become a form of refinancing loans. The KZT and foreign currency balances of correspondent accounts at the National Bank were accepted as collateral. Initially, the limit of bank loans under the security of balances of correspondent accounts was no more than 70% of the balances on the day of application for a loan, and no more than 70% of the average balances during the last period of minimum reserve requirements, and since September 3, 2007 these limits were decreased to 50%.

2. The economy was less credited, meanwhile banks provided loans less willingly, and foreign capital inflow became lower, and deposit base growth slowed. According to regular review *Status and forecast of lending market*, conducted by the National Bank in January 2008, in the second half-year of 2007 banks provided loans less willingly. Particularly, more than half of banks polled made their lending policies stricter regarding to non-financial organizations, and 68% ones made the mortgage lending policies stricter, and 63% ones made consumer lending policies stricter. This trend was mostly observed in the five leading banks with biggest assets which compose about 78% of assets, and which have the leading positions in the above lending segments. The main factors affecting lending policies were as follows:

- 1) low access to financial resources and financial resource cost growth in the world capital market,
- 2) growth of industry risks and individuals' solvency risks due to growth of debt burden;
- 3) growth of collateral cost change risks due to negative trends in the real estate market, and
- 4) expected slow-down of national economy development.

The competition between banks does not play any essential role, and therefore banks can determine the conditions in the lending market more freely. As a result, banks made stricter all price and non-price conditions of lending, especially, those related to risky loans, collateral requirements and maximal sums of loans provided, amounts of initial down-payments, and loan collateral requirements. The demand for residential mortgage and consumer loans responded to change of prices in the lending market and to economic development trends, and lower demand was noted by half and one-third of the banks polled respectively. As a whole, the 5 largest banks made their lending policies and conditions much stricter.

It should be noted that the negative trends of the second half-year will continue in the first half-year of 2008. Particularly, as for lending of non-financial organizations, only 2 banks intend to make the lending policy softer, and 1 bank intends to make softer mortgage lending policy, and 3 banks intend to make softer the consumer lending policy. However, as for lending individuals, the banks are going to make the lending policy any further. Meanwhile, both risky and usual lending conditions will become stricter.

In such conditions, banks expect that credit risk will grow, especially, for the leading five banks, which expect more expressed fall of the domestic and foreign ratings of borrowers, growth prorogations,

and worsened collateral quality. The growth of operations to collect pledged assets in respect of problem loans in the first half-year will affect the credit portfolio quality and will contribute to further fall of real estate prices (about 80% of respondents expect that average price of real estate will drop).

In addition, as estimated by banks, in the first half-year of 2008, priority will be given to reinvestment of received profit, growth of capital at the expense of current shareholders and deposits as sources of funds. The role of the international and domestic capital markets, strategic investors and governmental support will not be essential.

Thus, in general, now when the banks managed to keep liquidity, the most important issue is the bank capital load and capital adequacy in the conditions of expected worsening of credit portfolio quality being accompanied with stricter lending conditions.

3. A combination of foreign economic conditions, economy structural features and priorities of the governmental policy formed both positive and negative trends of economy development. These trends determine further development of financial relations in Kazakhstan, particularly:

1) stably high world prices, low debt load on governmental finance and larger incomes from the mining industry will support potentially excellent financial opportunities for the government management sector;

2) the ratio of credits, deposits and money supply to GDP of Kazakhstan approached or corresponds to those of most Eastern Europe countries with developing markets. In order to ensure sustainable economic development, any further lending growth rates must be slowed down and become more moderate;

3) lending boom caused high debt load on individuals' incomes and savings which will limit further growth of consumption and its contribution to GDP growth in the distant future;

4) any further concentration of banks' loan portfolio impedes financial stability;

5) capital inflow resulted in growth of banks' foreign liabilities so that the liabilities exceeded the optimal values. In the future, in order to keep the funding structure of bank system, the growth of liabilities to non-residents must not outpace the growth at the expense of other funding sources;

6) potential of use of deposit base for the growth of banks' assets will be restricted in the future with individuals' low savings, high inclination to consumption and high indebtedness;

7) incompliance between the currency of assets and that of liabilities of private sector, and relevant indirect credit risk restrict the possibility to use the exchange rate policy to adjust current account deficit in the national balance of payments;

8) there is potential conflict of interest when the long-term national economic development priorities do not allow to use fiscal policy to limit domestic demand and to keep back 'lending boom';

9) it is necessary to create the sufficient reserve in the National Fund, and reserves of gold and foreign exchange assets of the National Bank which will be adequate to the risks associated with capital mobility and high level of foreign indebtedness of private sector;

4. It is necessary to coordinate governmental policy to overcome negative effects of the world liquidity crisis, and to limit the risks of inefficient use of financial resources provided and to develop effective anti-crisis measure system if negative shocks on international financial markets occur or financial stability conditions become worse.

Particularly, in order to increase financial stability, and to build an effective system of government authority interaction, and to arrange simultaneous detection of financial stability threats, and to conduct well-coordinated financial risk management policy by the Government, the National Bank and FSA signed the Memorandum on issues of financial stability on November 10, 2007.

The Memorandum sets forth main principles of financial stability, every Party's goals and role to ensure financial stability according to the legislation of the Republic of Kazakhstan, information interaction procedures, and principles and mechanisms of system crisis effect mitigation.

Particularly, the Government, the National Bank and FSA agreed on:

1) principles of governmental support and procedures of performing other instruments of the governmental regulation to ensure financial stability;

2) optimal basic conditions of lending by the National Bank as a lender of the last instance;

3) expedience of the Government's participation in management of banks' problem assets when it is necessary to use this mechanism.

On the basis of the Memorandum, the National Bank, FSA and the Government have developed a set of mechanisms to ensure financial stability which will match potential threats and risks. Particularly, the measures were detailed, and necessary procedures and conditions, issues of coordination, improvement and using by state authorities of set of measures were set forth in respect of:

- 1) liquidity maintenance and issues of lending by the National Bank as a lender of the last instance;
- 3) use of other responses to ensure adequate liquidity and to provide funds at the expense of the development organizations;
- 4) use of anti-crisis measures in order to increase banks' asset and recapitalization quality, and to better foreign exchange regulation and replenishment of gold and foreign exchange reserves;
- 5) exclusive responses on maintenance of market participants' confidence in the bank system.

This set of measures will allow the government authorities to response operatively and to minimize any negative shocks on the international financial markets which are capable of worsening financial stability.

In order to support the bank sector stability, the National Bank and FSA developed an Agreement on cooperation and interaction in provision of loans with the National Bank. This Agreement is concluded on the voluntary basis with any bank for 1 year. The Agreement sets forth that the National Bank provides refinancing loans in conformity with the Rules of provision of bank loans with the National Bank approved with Resolution No. 118 of the Board of the National Bank dated September 30, 2005, and it sets weekly refinancing limits for the banks provided that the following obligations are implemented:

- to keep daily balances of national currency and foreign currency (in KZT equivalent) demands to non-residents of the Republic of Kazakhstan no more than the actual value of this indicator as of November 1, 2007, and not to form, not to purchase and not to increase the equity shares in any subsidiary or affiliated companies outside the country of residence, except when it is permitted with FSA before November 1, 2007;

- to keep daily balances of national currency and foreign currency (in KZT equivalent) liabilities to non-residents of the Republic of Kazakhstan no more than the actual value of this indicator as of November 1, 2007;

- to make efforts on increasing share capital;

- to keep conservative lending policy and moderate deposit policy.

As of March 1, 2008, this Agreement was concluded with 6 banks, and these banks hold about 45.6% of the total bank system assets.

In general, the adjustment, which is now difficult to assess, requires to perform governmental support and to perform reforms in order to ensure seamless structural transformation of the financial sector and to mitigate any negative effect on real sector activities.

At the same time, the government stresses that private sector must independently settle its problems, and that the better transformation is performed, the better reasons will be for further sustainable economic growth. The governmental support and proportion of distribution of costs between the government and the private sector will determine how quickly financial sector will develop in the future.

II. MONETARY POLICY, GOLD AND FOREIGN CURRENCY ASSET MANAGEMENT, AND CURRENCY REGULATION

2.1. Monetary policy

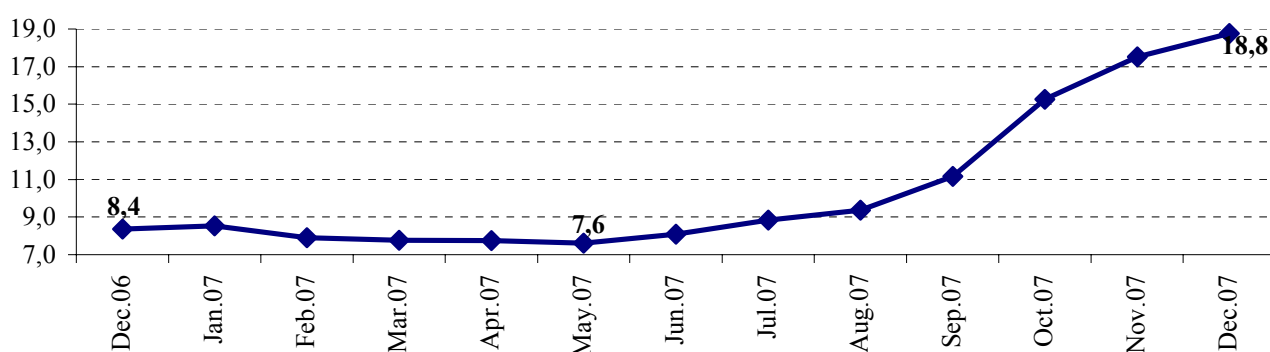
In 2007 inflation processes were of diverse nature. At the beginning of the year the inflation rate decreased: according to the Statistical Agency the annual inflation rate decreased from 8.4% in December 2006 to 7.6% in May 2007.

In the second half-year of 2007, inflation in the economy of Kazakhstan became higher. From September through December 2007 prices grew by 11.7%. At the same time, inflation grew due to, first of all, rise in prices of foodstuffs by 17.7%.

As a whole, in 2007, the annual inflation rate amounted to 18.8% (figure 2.1.1). The average annual inflation rate was 10.8%.

Figure 2.1.1

Annual inflation rate in 2007
(% as compared to respective month of previous year)



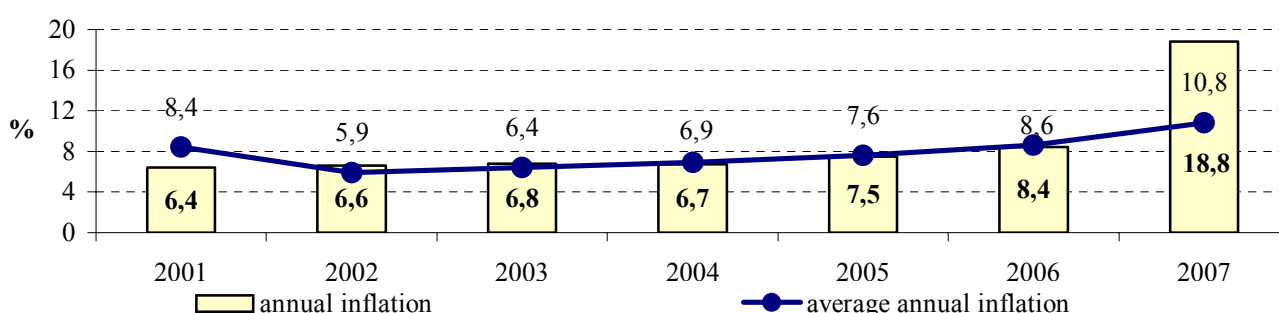
In 2007 we observed faster growth of prices as compared to 2006 for all CPI groups (Consumer Price Index). The foodstuffs became more expensive by 26.6% (in 2006 prices grew by 7.3%), pay service prices grew by 15.4% (by 11.6%), nonfood product prices grew by 10.5% (by 7.1%).

The vegetable oil price grew most of all by 96.8%, bread price grew by 48.5%, macaroni item price grew by 40.2%, egg price grew by 36.9%, healthcare service price grew by 22.0%, housing and communal service price grew by 18.4%.

At the same time, the inflation rate did not grow so much during the last 7 years (figure 2.1.2).

Figure 2.1.2

Inflation in 2001-2007



The inflation growth in 2007 was accompanied with moderate growth of money supply. In 2007 the money supply grew by 25.5% (in 2006 it grew by 78.1%). In 2007 the reserve money shrank by 2.5% (in 2006 they grew by 126.5%).

One of the main factors which affected inflation in 2007, one can distinguish external shock factors, aggregate demand growth, low labor productivity, and growth of prices in the real economy.

The sharp growth of world prices of foodstuffs (wheat and vegetable oils) became the main reason for considerable inflation rate growth in the second half-year of 2007.

According to the World Bank in 2007 the world price of wheat (Canada) grew twice, and according to the US Department of Agriculture, in 2007 vegetable oil prices grew twice as well.

In addition, the world oil prices are growing up very quickly. In 2007 the world Brent oil price grew by 46.8%, and average oil price was US\$ 72.7 per barrel (according to the World Bank).

In 2007 the individuals' incomes grew by 29.8% in nominal terms and by 17.1% in real terms. As a result, in 2007 the retail trade turnover grew by 10.0%.

The state budget expenditures grew by 36.6% in 2007, while revenues grew by only 22.8%. As a result, the state budget deficit was 215.3 bln KZT (in 2006 it was a profit of 81.6 bln KZT).

The real GDP as an indicator of the aggregate supply grew by 8.5% in 2007, i.e. the supply of goods and services in the economy does not meet the demand in full.

In 2007 an average monthly wage continue to grow faster than labor productivity. In 2007, wages grew by 17.8% in real terms, while labor productivity, as estimated, grew only by 5.2%.

The prices of producers of industrial goods grew by 31.9% in 2007, and in the respective period of 2006 the prices grew by 14.6%. The prices of intermediate goods rose by 35.8% (15.9%), prices of finished products grew by 33.6% (15.0%), and prices of means of production rose by 20.8% (8.7%).

Prices of energy resources produced by Kazakhstan industrial enterprises grew by 45.8% in 2007 (in 2006 they grew by 10.0%). At the same time, oil prices rose in 2007 by 52.3% (11.0%), and gas condensate price grew by 47.0% (fell by 0.9%).

It should be noted that in 2007 the government authorities involved in the price regulation in the economy of Kazakhstan took necessary measures to stabilize the consumer market.

The main efforts were made to prevent unreasonable growth of prices of the main group of goods and services rendered to individuals, and to suppress price collusion, unfair competition, and abuse of dominant market position. The measures were taken to promote wholesale and retail trade markets, to develop trade infrastructure, and to develop competitive environment in the commodity markets.

Monetary policy instruments. In 2007 the National Bank performed its monetary policy according to the Monetary Policy Guidelines for 2007-2009. In order to achieve the inflation target, in 2007 the National Bank took measures on tightening the monetary policy. These included withdrawal of banks' excess liquidity and increase of rates on its own transactions.

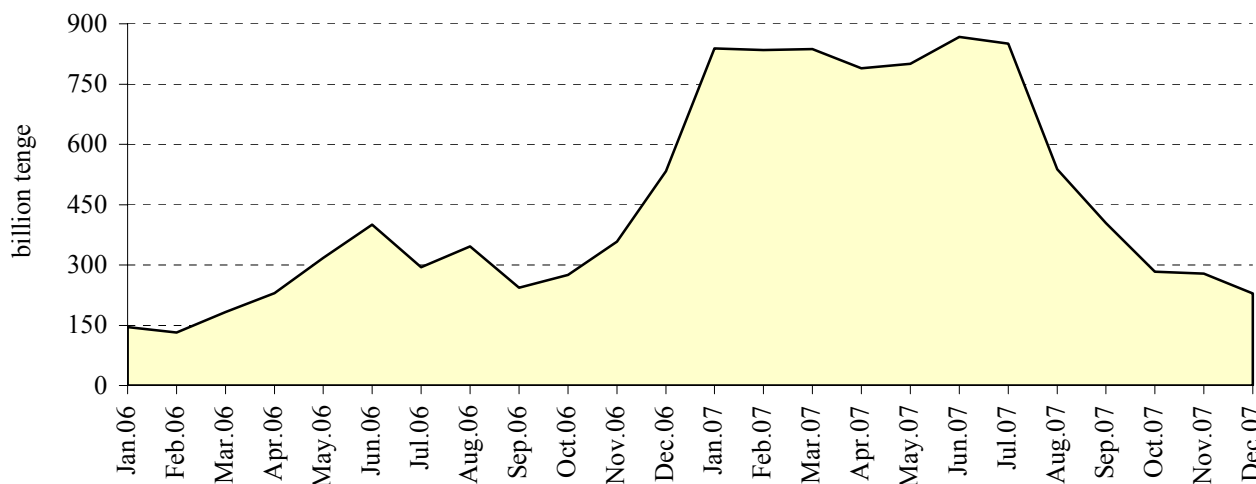
However, in the second half-year of 2007, due to the world liquidity crisis, high concentration of Kazakhstan banks' assets in mortgage loans increased the banks' exposure to risks. It was typical for both Kazakhstan and many other countries including the biggest economies of the world.

In such conditions, responding to the changed situation, the National Bank ***focused its monetary policy on financial stability, and provided banks with liquidity.***

In 2007 as compared to 2006, the volume of short-term notes grew by 11.1% and amounted to 4.3 trln. KZT. However, in 2007 the volume of short-term notes in circulation fell by 57.1% down to 228.9 bln. KZT (figure 2.1.3).

Figure 2.1.3

Short-term notes in circulation (as of the end of period)



The weighted average yield on short-term notes increased from 4.69% in December 2006 up to 5.64% in December 2007.

In 2007 28-day (1-month), 3-month, 6-month and 1-year short-term notes were issued. As result of contracted demand of the banks for short-term notes and given the lack of “free” liquidity, from September 2007 to December 2007 the National Bank issued only 28-day short-term notes.

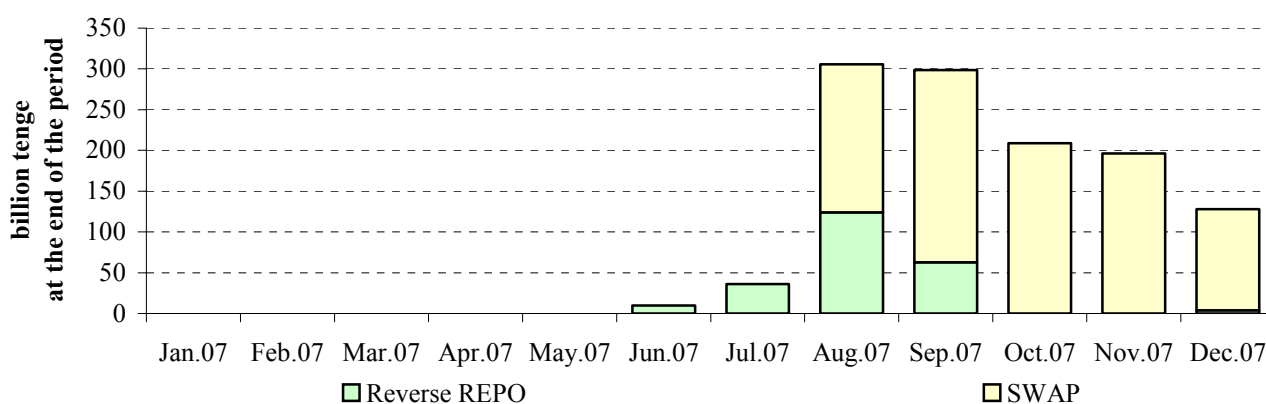
In 2007 banks attracted deposits of 4.2 trln. KZT, which is 48.6% less than in 2006. The balance deposits of banks in the National Bank fell by 92.4% to 9.9 bln. KZT.

In order to provide banks with the short-term KZT liquidity, since August 2007 the National Bank has increased the number of reverse REPO operations, and started to conduct currency SWAP operations. In addition, the National Bank has recommenced to redeem own short-term notes ahead of time.

From August 2007 to December 2007 the National Bank conducted reverse REPO operations of 723.9 bln. KZT, SWAP operations of 4,043.1 bln. KZT. These are the 7-day refinancing operations. As of December 2007, the non-paid debts to the National Bank in respect of reverse REPO operations amounted to 4.0 bln. KZT, and debts in respect of SWAP operations amounted to 123.8 bln. KZT (figure 2.1.4).

Figure 2.1.4

Outstanding debt on refinancing operations provided to banks



In the first half-year of 2007, the excess supply of foreign exchange from financial account operations of the balance of payments strengthened the KZT exchange rate which was depreciated owing to the National Bank’s operations in the domestic money market. Thus, from January 2007 through June 2007, the net purchase of the National Bank in the foreign exchange segment of the Kazakhstan Stock Exchange amounted to 935.8 mln. US\$, that of the inter-bank market amounted to 125.5 mln. US\$.

In the second half-year of 2007 the demand for foreign exchange exceeded the supply which was caused by worsened conditions of fund attraction in the international capital markets and sharp growth of redemption payments and service fees for foreign loans attracted with banks which depreciated the KZT exchange rate.

Taking into consideration that most assets and liabilities of banks are put in foreign currency, and that there is high indirect credit risk caused by incompliance between borrowers’ asset currency and liabilities currency, the sharp change of exchange rate could considerably worsen financial stability of the banks. In addition, the liquidity deficit in banking system promoted public panic in respect to sharp change of foreign exchange rates which are the most obvious stability indicators for the public, and therefore, individuals funds were converted from national currency into foreign one.

Therefore, while foreign exchange supply was shrinking, the demand grew owing to the operations of the National Bank in the domestic money market. For example, from July through December 2007, the National Bank’s net sales in the foreign exchange segment of the Kazakhstan Stock Exchange amounted to 6,961.6 mln. US\$, and those in the inter-bank market amounted to 346.5 mln. US\$.

However, in spite of the National Bank’s liquidity provided in 2007 these operations led to net withdrawal of KZT liquidity (table 2.1.1).

During 11 months of 2007 *the official refinancing rate* remained unchanged at level 9.0%, and interest rate on banks deposits at the National Bank amounted to 4.5% (½ of the official refinancing rate).

Table 2.1.1

Operation balance of the National Bank in the domestic market in 2004-2007

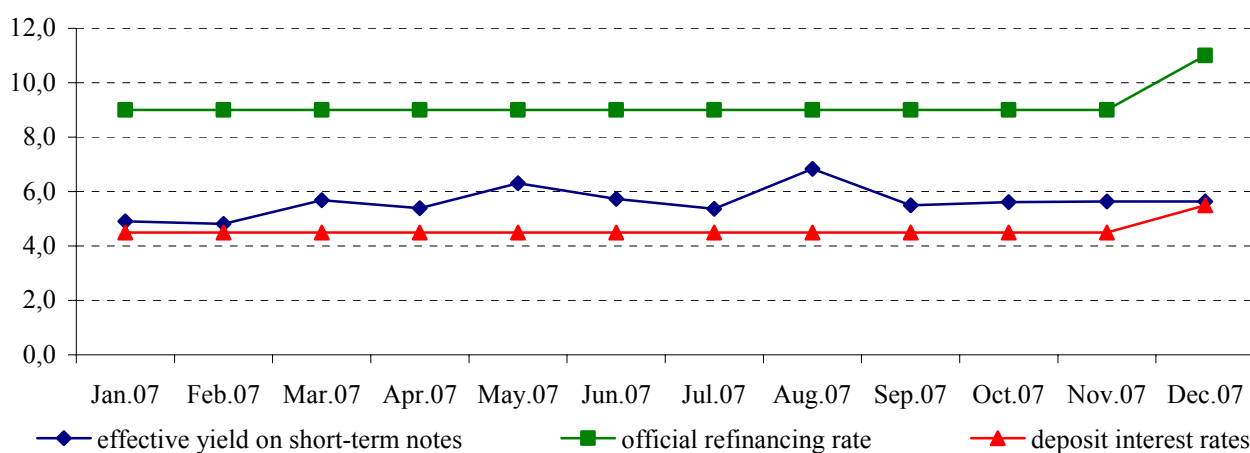
KZT bln

	Balance of the National Bank's operations in the money market ("-" means withdrawal, "+" means providing of KZT liquidity)	Participation of the National Bank in the money market ("-" means net sale of foreign exchange, "+" means net purchase of foreign exchange)	Net withdrawal of liquidity ("-" means liquidity withdrawal, "+" means providing of KZT liquidity)
2004	- 303.5	478.0	174.5
2005	211.2	- 48.6	162.6
2006	- 997.8	1,271.1	273.2
2007	646.5	- 771.7	- 125.2

Since December 1, 2007 both rates increased up to 11.0% and 5.5%, respectively (figure 2.1.5).

Figure 2.1.5

National Bank's operations rates in 2007



In the first half-year of 2007, with high inflation rate, the National Bank introduced the amendments to Resolution No. 39 'On establishing minimum reserve requirements' in order to make the monetary policy stricter.

At the meeting held on July 20, 2007 the Board of the National Bank decided to amend *the minimum reserve requirements (MRR) norms*. The MRR norms for internal liabilities was set to 5%, and for other liabilities including the liabilities to non-residents and liabilities on debt securities regardless the sign of residency, the MRR norms was set to 10%.

The new MRR norms should have come into force on August 29, 2007. However, because in the second half year of 2007 the situation changed, and short-term liquidity problems arose due to instability in the world financial markets, the National Bank decided to delay to introduce the new MRR norms (for internal liabilities it was 5%, and for other liabilities it was 10%), and postponed the introduction of the norms until October 9, 2007, and later, until January 15, 2008.

Later, by Resolution No. 145 of the National Bank's Board dated December 24, 2007, it was decided that the minimum reserve requirements norms would come into force on July 01, 2008 instead of January 15, 2008 because 'free' liquidity was still insufficient.

In addition, in August 2007, the National Bank amended the Rules on MRR. The amendments were intended to reduce the reserve liabilities base and to extend the reserve assets structure, which allowed the banks to release another 150 bln. KZT (as estimated). These amendments came into force on October 9, 2007.

In 2007 **no bills were accepted for rediscount.**

Because the monetary policy was made stricter, the limit of rediscount of bills in 2007 was set to "0" KZT, by resolution of the National Bank's Technical Committee for Monetary Policy dated January 15, 2007.

As of December 2007, there were no bills in the National Bank's portfolio. The general agreements on rediscount of bills have been entered into with 9 banks. As of December 2007, 2 entities were recognized to be the first-class issuers.

Money supply. In 2007 the money supply indicators slowed down as compared with 2006.

The National Bank's net international reserves decreased by 9.1% to 17.4 bln. US\$. The sale of foreign currency in the domestic money market, the National Bank's operations on the service of the external debt of the Ministry of Finance and on replenishing the National Oil Fund assets at the expense of the gold and foreign exchange reserves, and decreased balance of banks' foreign currency correspondent accounts in the National Bank, have resulted in decrease of net foreign exchange reserves by 12.5% to 15.5 bln. US\$, in spite of receipt of currency on accounts of the Government in the National Bank. The gold assets grew by 34.6% as a result of the operations conducted with the National Bank and due to gold price growth.

In 2007, **the reserve money** contracted to 1,464.3 bln. KZT or by 2.5% (in 2006 it grew by 2.3 times) which was caused by decrease of the National Bank's net external assets.

The narrow reserve money, i.e. the reserve money not including term deposits of banks in the National Bank grew by 6.2%, and amounted to 1,454.3 bln. KZT.

The National Bank's net internal assets in the current prices grew by 54.3%. The net claims to the Government grew by 72.2% owing to decrease of balance of the Government's accounts, claims to the financial organizations grew by 75.0% because refinancing loans were provided to banks and because volume of short-term notes in circulation decreased; claims to the other economic entities grew by 21.8%. The other net internal assets of the National Bank contracted by 59.3%.

In 2007, the reserve money contracted most of all in October (by 12.3 %). The reserve money extended most of all in April (by 16.2%).

The growth of net internal assets of bank system in 2007 became the main factor of extension of the **money supply** by 25.5% up to 4,613.7 bln. KZT.

The growth of internal assets of the banking system by 67.4% was caused by considerable growth of claims to the Government, i.e. they grew by 4.9 times, and claims to other economy sectors grew by 51.4%. The claims to the Government grew due to growth of outstanding government securities and due to decrease of balances of the Government's accounts. The growth of net claims to the economy sectors (by 51.4%) was caused by still growing lending of the economy.

However, as compared to 2006, the money supply extended slower because the net external assets of the banking system decreased by 4.3 times.

As for the structure of net external assets of bank system, the net external assets of banks decreased by 39.6%.

The money supply extended slightly faster (it grew by 25.5%) than nominal GDP (it grew by 24.6%), which resulted in slight growth of the economy monetization from 36.0% in 2006 to 36.3% in 2007.

In 2007 the money multiplier grew from 2.45 to 3.15 because while reserve money was shrinking, the money supply grew.

As for the structure of money supply, in 2007 the **cash in circulation** (M0) grew by 23.1% up to 739.7 bln. KZT, while residents' deposits grew by 25.9% up to 3,873.9 bln. KZT. Because the residents'

deposits grew faster than cash in circulation, the share of deposits in the structure of money supply continued to grow. During 2007 this indicator grew from 83.7% to 84.0%.

The growth of cash in circulation was caused by increased wage and withdrawal of time deposits by individuals.

However, in 2007 the cash in circulation (M0) grew almost twice as slower, i.e. it grew by 23.1% as compared with 45.9% in 2006. It can be mainly explained by considerable growth (by 40.9%) of cash intakes to banks from sale of the foreign exchange. The net outflow from banks to pay for goods, works and services fell by 37.7%, which can obviously be explained with prevailing cashless settlements.

Improving methods and tools of monetary policy

In 2007 the monetary policy tools and the methods of analysis and forecast of fluctuations of macroeconomic indicators continued to be improved. One of the important tool to forecast fluctuations of macroeconomic indicators is a transmission mechanism model designed in late 2005. It includes the following main monetary tool channels to influence inflation: money channel, interest (lending) channel, foreign currency channel, and external economic channel. In order to construct the transmission mechanism model a behavioral model type was selected based on presupposition that if in the past a number of economic variables were tied with specific functional interconnections to one another, then, most likely, these interconnections will be observed in the nearest future.

This model was constantly improved and actualized. Its last version introduces the inclusion of monetary policy rule and the partial correction mechanism model in equation model.

The last version of transmission mechanism (TM) model was constructed on quarterly base using actual quarterly data of the National Bank and the Statistical Agency from the 1st quarter 1996 to the 3rd quarter 2007, and it includes 15 equations and 42 variables. The equations describe KZT exchange rate, reserve money, money supply (demand for money), inter-bank rate on overnight loans, rates on KZT loans issued to legal entities, credits to economy, Gross Domestic Product, deviation of Gross Domestic Product from its potential value, inflation rate, monetary rule, and refinancing rate adjustment mechanism.

The exogenous (influencing) variables are the following monetary policy tools: the National Bank's rate on repo operations, short-term notes in circulation, volume of banks' deposits in the National Bank, the National Bank's currency intervention, and minimum reserve requirements. Besides the monetary policy tools, the exogenous variables are also export and import volumes, GDP, import prices index, outstanding government securities of the Ministry of Finance, volumes of deposits in banking system, investments in fixed capital, world oil prices, and national average monthly wage.

In 2006, in addition to the transmission mechanism model the National Bank used various satellite models to assess the fluctuations of macroeconomic indicators. To some or other extent, the satellite models complete the transmission mechanism model. The satellite models include, for example, model of inflation pressure P-Star, model of potential GDP, vector auto-regressive model of inflation (VAR-model).

The transmission mechanism model and satellite models are used to design monetary policy guidelines for middle-term period.

According to the Asian Development Bank's project of technical assistance in reforming economic policy in the Central Asia countries, the National Bank is elaborating the multifactor macroeconomic model of national economy. The model consists of 6 basic modules describing the aggregate demand in the economy, the aggregate supply, the pricing of production factors and inflation rate, the external sector, the fiscal sector, as well as the monetary policy rule.

In order to provide information and analytical data to the Government and the National Bank, National Analytical Center under the Government and the National Bank of the Republic of Kazakhstan JSC (hereinafter referred to as 'the Center') was incorporated in 2007.

The basic goal of the Center's activities is:

- 1) to research and to prepare recommendations on urgent issues of public administration;
- 2) to conduct system and comparative analysis, to monitor and to assess labor productivity as per national economy sectors, and to reveal any key factors determining competitiveness of the sectors;
- 3) to assess efficiency of regulator activities of the state bodies;
- 4) to conduct research on financial stability issues.

2.2. The National Bank's gold and currency assets, and asset management

Fluctuation of indicators of gold and currency assets. As of January 1, 2008, the National Bank's total gross gold and currency assets were equal to US\$ 17,392.5 bln, which is US\$ 1,734.6 bln less as compared with January 1, 2007. The foreign currency assets decreased by US\$ 2,210.9 mln while monetary gold grew by US\$ 476.3 mln, which resulted in change of gross gold and currency assets (Appendix 1 to section II, subsection 2.2, table 2.2.1).

The national money market was affected with the demand for foreign currency exceeding supply thereof. For example, the National Bank's net sales in the Kazakhstan Stock Exchange amounted to 6,025.7 US\$ mln. The over-the-counter net sales amounted to US\$ 221.0 mln.

In the previous period the National Bank remitted US\$ 2,330.8 mln to banks' obligatory reserving accounts in the National Bank.

At the same time, in 2007 the National Bank made payments of US\$ 600.4 mln in respect of the Ministry of Finance's external debt.

The world gold prices grew from US\$ 639.75 per troy ounce as of January 1, 2007 to US\$ 846.75 as of January 2, 2008, or by 32.4%.

The National Bank performed net purchases of 775.4 troy ounces of gold on international market.

Gold and foreign currency asset management. Due to unstable conditions in the international market situation the gold and foreign currency assets were converted into safer assets such as the government bonds. As a whole, the portfolio credit quality improved.

In order to improve the management of the gold and foreign currency assets, the National Bank's Investment Committee has been formed.

In the reporting period, the investment management agreement with one of external managers of the National Bank's gold and foreign currency assets was cancelled.

In order to improve responsiveness to any sharp changes in the global financial markets, the relevant amendments were made to the Investment Strategy on Gold and Foreign Currency Asset Management as approved with Resolution No. 139 of the National Bank's Board dated November 30, 2007.

On March 30, 2008 the National Bank's Board took Resolution No. 33 'On making amendments and additions to Resolution No. 133 of the National Bank's Board dated April 13, 2002' 'On approval of Rules of performance of operations with derivative financial instruments by the National Bank' in order to improve operations with derivative financial instruments and to extend the list of instruments.

Investment portfolio of gold and foreign currency assets. In early 2007 the market value of the investment portfolio of gold and foreign currency assets amounted to US\$ 8,933,0 mln, and in late 2007 it amounted to US\$ 5,799.3 mln.

In 2007, the investment portfolio profitability denominated the foreign currency basket amounted to 6.04%. While the benchmark profitability amounted to 5.72%, the outperformance amounted to 32 basis points.

In 2007, the investment portfolio profitability denominated the US dollars amounted to 10.95%. While the benchmark profitability amounted to 10.61%, the outperformance amounted to 34 basis points.

In 2007, without taking into account commission fees, the outperformance of US\$ sub-portfolios being externally managed amounted to (-) 224 basis points (for sub-portfolio managed by Manager 1), (-) 200 basis points (for sub-portfolio managed by Manager 2), and if taking into account the commission fees the outperformance amounted to (-) 234 basis points and (-) 206 basis points, respectively (Appendix 2 to section II, subsection 2.2, figure 2.2.3).

In late 2007 the managers distributed the investment portfolio assets by instruments as follows: 4.91% as cash and equivalents, 78.98% as government bonds, 9.08% as agent securities, 4.93% as securities of international financial organizations, and 2.10% as corporate securities.

In late 2007 the managers distributed the investment portfolio assets by instruments as follows according to profitability curve: 36.40% up to a year, 3.10% from 1 year to 2 years, 24.30% from 2 year to 3 years, 22.50% from 3 years to 4 years, 0.00% from 4 years to 5 years, and 13.80% over 5 years.

Absolute return portfolio of the gold and foreign currency assets. The market value of the absolute return portfolio amounted to US\$ 49.9 mln in early 2007, and in late 2007 it amounted to US\$

370.5 mln. The transfer of US\$ 300 mln from the investment portfolio changed the market value of the absolute return portfolio.

In 2007, the profitability of the absolute return portfolio amounted to 6.26%. While reference profitability amounted to 5.44%, the outperformance amounted to 82 basis points.

Gold and foreign currency assets liquidity portfolio. In early 2007, the market value of the liquidity portfolio amounted to US\$ 8,753.1 mln, and in late 2007 it amounted to US\$ 9,409.3 mln.

The liquidity portfolio is intended to implement the monetary policy, and all the flows and various payments are also effected through the portfolio. This portfolio is not assessed when estimating the profitability of the gold and foreign currency asset portfolios, and has no benchmark.

Gold portfolio of the gold and foreign currency assets. In early 2007 the market value of the gold portfolio amounted to US\$ 1,371.7 mln, and in late 2007 it amounted to US\$ 1,812.2 mln.

2.3. Currency regulation and currency control

The staged liberalization of exchange regulation implemented since 2002 entered its final stage in 2007. The licensing of currency exchange operations was completely abolished since early 2007 which gave rise to full convertibility of KZT on both current and capital operations. For example, since January 1, 2007:

- it is not required to repatriate the currency earnings within 180 days, and the repatriation terms are determined depending on the terms set forth with the foreign trade contracts;
- it is not required for legal entities and physical persons to obtain permissions to perform currency exchange operations of capital flow and to open accounts with foreign banks;
- it is not required for resident legal entities to limit the purposes of purchase of foreign currency on the domestic money market. The legal entities must indicate the purpose of purchase and sale of foreign currency only for statistics purposes, and the legal entities are restricted to spend the foreign currency purchased for any other purposes not contradicting the laws.

The change of approach to currency regulation influenced the nature of the requirements set forth with currency laws. The current currency regulation, i.e. registration of and notification about any large foreign exchange operations, and export and import currency control do not put any limitations to the operation itself, and are intended to collect reliable information on the nature and the volume of a currency operation.

Export and import currency control (EICC). Since early 2007 it is required to repatriate currency earnings within the terms set forth with foreign trade contract, which substantially simplified performance of currency operations, and reduced the foreign trade participants' costs on compliance with the currency laws.

The new export and import currency control has the simplified procedure of passportization of foreign trade deals, and any excessive administrative barriers and red-tape elements were excluded. The transaction passport is prepared by exporters or importers when they apply to the serving bank, and the obligation to prepare the transaction passport give rise to no additional requirements and conditions to performance of foreign trade operations. The simplification of the system results in closer coordination of control by the National Bank, tax and customs bodies within their relevant competences.

In 2007, the National Bank's activities in the field of export and import currency control were intended to ensure that up-to-date version of export and import currency control is implemented.

In order to start to use contractual terms of repatriation in accordance with part 1 of Article 12 of RoK Law 'On currency regulation and currency control', the National Bank continued to clarify the new Rules of export and import currency control. Information on frequently asked questions of banks and foreign trade participants were published on the National Bank's official website. Article titled 'Innovations of export and import control of the Republic of Kazakhstan' was published. A meeting with Customs Control Committee of the Ministry of Finance was held in Astana City to delete any excessive requirements of customs bodies to deals passportized, and to establish regular exchange of information on cargo flows.

In addition, to ensure effective transition from licensing procedure of currency operations to follow-up monitoring and selective control system, the National Bank improved the foreign economic trade information database. Therefore, the new export and import currency control sets forth only

exchange with electronic message. The relevant software was updated to consolidate information on export and import operations. The draft formats for exchange with electronic message were elaborated. In January 2007, the exchange with electronic messages between banks and the Customs Control Committee of the Ministry of Finance was tested. These activities included collection of initial data on transaction passports, cash flows and goods flows, and information on violating exporters/importers.

It is started to update the automated information system to exchange information with the National Bank's branches in respect of transaction passports prepared with the branches, and to analyze the reasons of delayed performance of obligations, and what resolutions were taken on banks' statements about their clients' violating the currency laws.

Thus, the updated version of export and import currency control allows to obtain extended information on currency and goods flows, including information on change of conditions of performance of obligations under export and import contract, and it is a part of statistical monitoring to ensure preventive response to possible threats to national economic security.

In 2007, after processing the data of the automated export and import currency control system, the National Bank submitted reliable data on transaction passports and payments made under export and import contracts to the President's Administration in accordance with item 14 of the National Bank's Activity Plan intended to prevent corruption in 2006 through 2010, and in accordance with the Schedule of submission of information to the President's Administration in 2007.

In 2007, after processing the data of 'Collection and analysis of results of export and import currency control' Automated Information Program, information on 15,815 facts of possible violations was submitted to the National Bank's branches, and information on 133 facts of possible violations was submitted to the Agency For Fight Against Economic and Corruption Crime (Financial Police) to institute administrative or criminal proceedings.

Currently, this software Program is the information source not only for currency control, but also for analysis and information purposes when forming the balance of payments, and it allows to analyze whether currency regulation and control tool are effective.

Licensing activities connected with use of currency valuables. In 2007, the National Bank issued 133 licenses to perform currency exchange operations, and 1 license to perform retail trade and to render foreign currency paid services.

Administrative proceedings on currency laws. The National Bank continues to reveal and to suppress any administrative violations of currency laws. Currently, the key goal of the currency regulation is to form the information database for currency operations and capital flows, and to keep analytical monitoring of the currency operations using the database.

In order to ensure timely, full and reliable recordkeeping of currency operations, and to form the statistics of the balance of payments, international investment position and the national foreign debt, it is set forth that the violation of terms of applying for registration certificates and certificates of notification, r submission of unreliable information, or untimely submission of currency operation reports are punished with administrative liability.

In 2007 the National Bank exerted all efforts to inform market participants about amendments to the RoK Administrative Violations Code to be made effective on January 1, 2008, which amendments set forth that the violation of the procedure of submission of information and documents on currency operations will be punished. The National Bank sent 10,784 warning letters to banks' clients which violated the said procedure in order to reduce such violations.

As a whole, in 2007, the National Bank instituted 755 administrative proceedings for violation of currency laws and statistical accounting, which is substantially less as compared with 2006 (1,239 proceedings). Such a drop was caused by cancellation of licensing of currency operations, and introduction of administrative liability for violation of terms of submission of documents applying for license, and complete implementation of the new export and import currency control since the second half-year of 2007.

In 2007, the National Bank imposed penalties in respect of 685 administrative proceedings, including:

- fines of KZT 33.7 mln for 410 administrative proceedings
- warning in respect of 275 proceedings was made.

- 66 proceedings were finalized.

In 2007, 30 cases were submitted to courts, and fines of KZT 6.2 mln were imposed in respect of 21 cases, and 6 cases were finalized, and 3 cases are still pending.

Thus, in 2007, the National Bank (including its branches) replenished the state budget with KZT 39.9 mln as a result of considering administrative violations of currency laws, and performed the preventive activities to timely notify the market participants about liability for violation of currency laws.

Currency control inspections. While planning to inspect the activities of the National Bank's branches to be performed by submitting and preparing Quarterly Inspection Plans, the National Bank controls and analyzes the inspection materials submitted by the branches, and the data to be input to 'Collection and analysis of results of export and import currency control' AIP.

In 2007, the National Bank (including its branches and head office) performed 714 inspections of banks, the organizations engaged in specific bank operations, and other legal entities to check whether they comply with currency laws, and of these, 708 inspections were scheduled ones, and 6 inspections were unscheduled ones.

According to the inspections which revealed violations of the procedure of performance of foreign currency exchange operations, the branches imposed punitive sanctions and measures of influence on relevant violators, and in respect of the other violations the relevant materials were sent to the National Bank's head office for considering and taking relevant measures.

Taking into consideration that the currency laws eliminated various restrictions and simplified the general procedure of performance of currency operations, after January 2007 the currency operation inspections performed with the National Bank become more analytical-oriented, and were intended to ensure that the currency control agents would provide the National Bank with timely and reliable information. The new methods of inspection are based on more detailed studying and analyzing the information of statistical monitoring and currency monitoring, reports on sources of foreign currency supply and demand, export and import currency control, and other materials and information to be submitted according to the currency laws.

These circumstances resulted in annual reduction of the number of inspections performed with the National Bank. For example, as compared with 2005 (KZT 6.7 million), the sum of fines imposed in respect of 130 administrative proceedings grew more than twice, and as compared with 2006, it grew by 1.8 times (it was KZT 7.8 million), and amounted to KZT 13.8 million.

In addition, 20 administrative penalties in the form of warnings were imposed and 6 sanctions in the form of suspension of registration certificates of authorized organizations' currency exchange offices were applied.

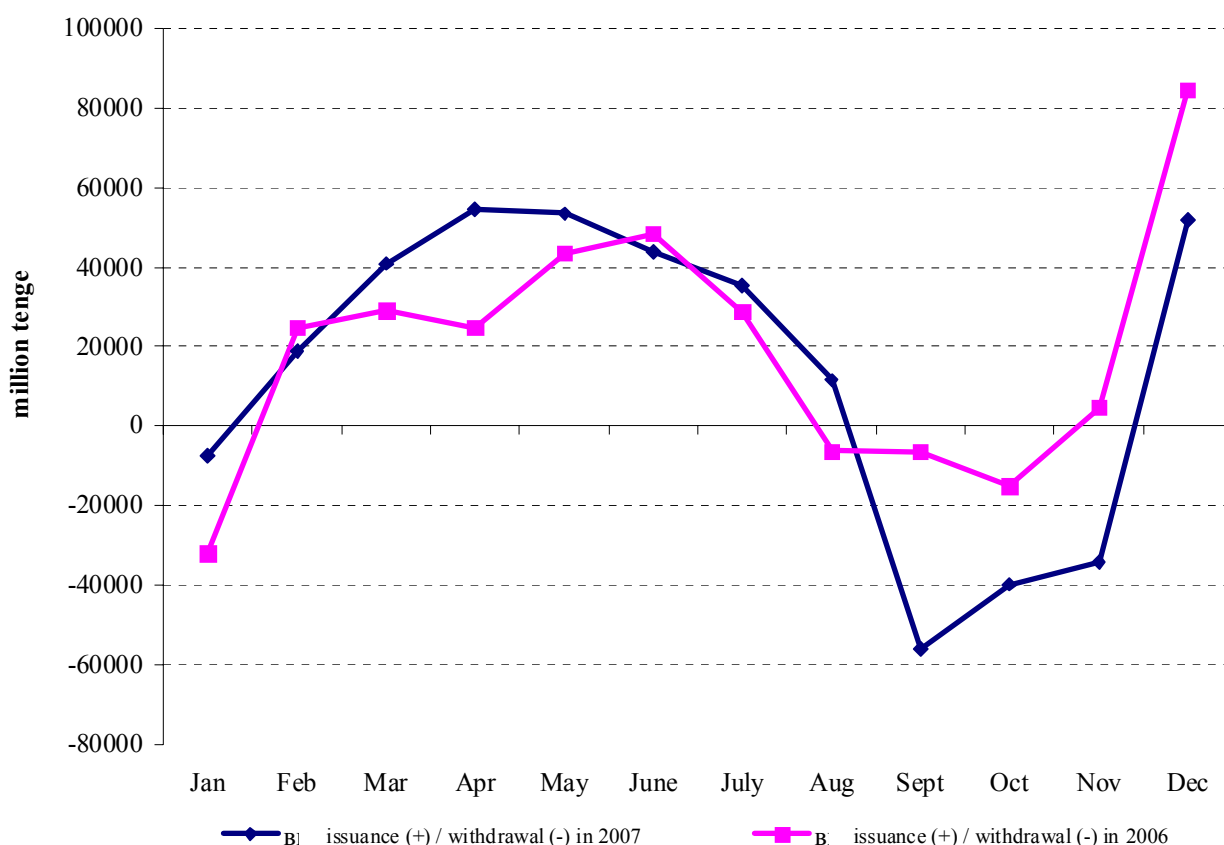
In addition, the National Bank imposed 282 measures of influence on authorized banks and organizations, and of these 174 ones stated the demand to submit letters of obligations, 79 ones were written warnings, and 29 ones were written orders to be implemented.

III. ISSUING TRANSACTIONS AND CASH CIRCULATION

3.1 The National Bank's issuing transactions

In 2007, the National Bank's reserve funds issued cash money of KZT 1,322.9 bln. The volume of banknotes and coins of the national currency recalled from circulation during the same period amounted to KZT 1,150,1 bln. Thus, the issuing result amounted to KZT 172.8 mln, which is by 75.5% less than the indicator of 2006 (KZT 228.8 bln) (figure 3.1.1).

Issuance result changes from 2006 through 2007



In January, the volume of cash money recalled from circulation decreased by KZT 24.5 bln as compared with January 2006, and it achieved the level of (-) KZT 7.5 bln. In February the issuing result dropped by KZT 6 bln, while in the following three months, from March through May, the volume of banknotes and coins issued increased by 1.5 times as compared with the respective period of the last year. In June, the volume of banknotes and coins issued dropped by KZT 4.5 bln. From July through August the volume of issuance again grew by KZT 24.7 bln. The most considerable decrease of issuance was observed in September when the issuance result was negative and amounted to (-) KZT 56,1 bln, which is the historic minimum for this monthly indicator. In the 4th quarter, the volume of issuance tended to drop, and the issuance result in this period amounted to (-) KZT 22.2 mln which is by KZT 96.4 bln less than the last year result. The reason for increased volume of cash money recalled from circulation in this period was decreased volumes of lending physical persons by banks and growth of volumes of foreign currency sold to physical persons.

Thus, in the period analyzed the issuance result was less than that of 2006 because the volume of cash money issued in February, June, and from September through December dropped. In autumn months of 2007, the volume of banknotes and coins issued dropped as compared with the respective period of 2006 (by 7.7 times), and as compared with those of the previous six years.

As per regions, all regions except Almaty City, Zhambyl Region and South-Kazakhstan Region have positive issuance results. The most issuing regions are East-Kazakhstan Region (KZT 66.4 bln), Karaganda Region (KZT 57.5 bln), Kyzylorda Region (KZT 56.1 bln) and Almaty Region (KZT 51.2 bln).

The issuance result dropped as compared with that of the previous year in five regions and in Astana City, while in South-Kazakhstan Region the issuance result changed from positive to negative one. Zhambyl Region and Almaty City show that more cash money (KZT 10.1 billion) is recalled from circulation than cash money is issued (KZT 81.0 bln).

Akmola Region, Aktobe Region, Kyzylorda Region and Mangystau Region issued more cash money.

In connection with replacement of old design banknotes, the banknotes of KZT 1,176.3 bln were recalled from circulation, and therefore, as of January 1, 2008 the volume old design banknotes amounted to 0.8% of all circulating banknotes.

3.2. Cash circulation

The cash flow indicators for banks' cash-desks show that cash inflow to banks' cash-desks (50.7%) continue to grow faster than the cash outflow from banks' cash-desks (48.5%), when comparing cash-desk cash flows of 2006 and 2007.

The decrease of the issuance result affected the cash flow indicators for banks' cash-desks.

In reporting period the cash inflow to banks' cash-desks amounted to KZT 9,689 bln, and it increased by 50.7% as compared with the previous year (KZT 3,258.2 bln), and the volume of cash outflow amounted to KZT 10,034.5 bln, and it increased by 48.5% (KZT 3,279.2 bln). As seen from table 3.2.1 (appendix 1 to section III subsection 3.2), all items of cash flow grew. The cash outflows to pay for agricultural products did not grow, which is observed for a few years.

The cash return ratio for banks' cash-desks amounted to 96.6%, as compared with 95.2% in 2006.

The following cash inflows are the basic ones to banks' cash-desks:

- cash inflows from sale of goods, services and works rendered amounted to KZT 2,271.1 bln (23.4% of total volume of cash inflows to banks' cash-desks), the cash inflow grew by 30.7%;
- cash inflows to deposits of physical persons amounted to KZT 1,842.8 bln (19.0%), and they grew by 82.7%;
- cash inflows from sale of foreign currency amounted to KZT 1,741.4 bln (18.0%), and they grew by 40.9%.

Item 'Taxes, charges and custom fees revenues' grew from KZT 93.1 bln to KZT 134.3 bln (by 44.2%).

When comparing cash outflows of 2007 with cash outflow of the previous year it becomes obvious that the prevailing items of banks' cash-desk outflows are:

- cash outflows from physical persons' deposits, which amounted to KZT 2,384.6 bln (23.8% of total volume of cash outflows from banks' cash-desks), which means that they grew by 76.5%;
- cash outflows to pay for goods, services and works rendered amounted to KZT 1,635.1 bln (16.3%), which means that they grew by 28.1%;
- cash outflows to feed ATMs amounted to KZT 1,575.1 bln (15.7%), which means that they grew by 61%.

As for the total volume of cash outflows, since July 2007 item 'Loans issued' decreased by KZT 41.7 bln, and amounted to KZT 11.8 bln or by 3.5 times.

IV. FINANCIAL MARKET

4.1. Foreign exchange market

In 2007, KZT exchange rate characterized by multidirectional trends caused by both fluctuations of volumes of foreign currency supply and demand, and volatility of exchange rates in the world foreign exchange market.

In the first half of 2007, tenge appreciated against US dollar in nominal terms, from late July through August depreciation of KZT against US dollar was observed while in September tenge started to appreciate again. The fluctuations of KZT exchange rate were negligible from October through December.

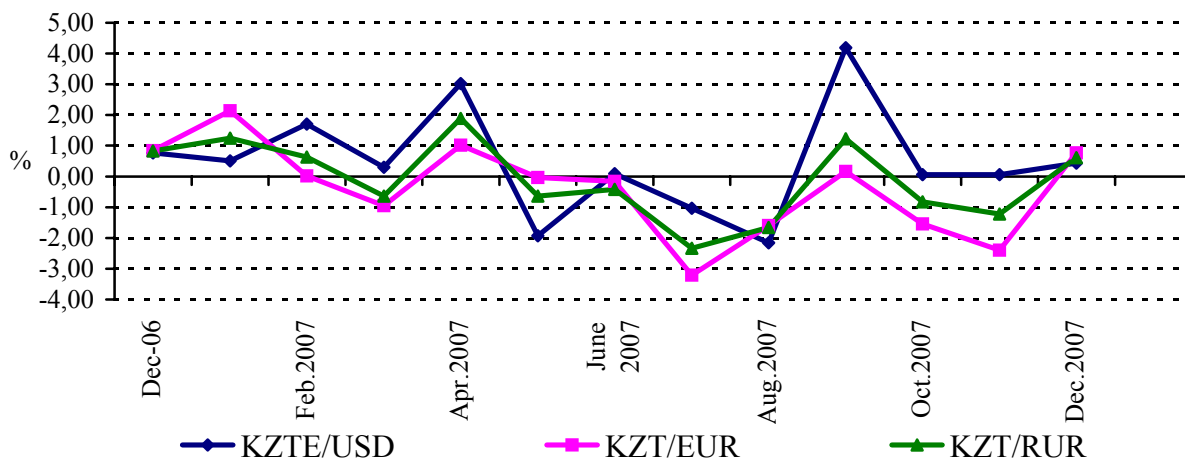
The foreign exchange market instability in August was primarily caused by banks' considerable demand for foreign currency. It is connected with the fact that in the second half of 2007 banks planned to pay principals and interests on their foreign loans.

In 2007 the weighted average KZT exchange rate equaled to 122.61 per dollar US. As of the end of the period, the stock exchange rate amounted to 120.30 KZT per dollar. In 2008 KZT exchange rate appreciated by 5.28% in nominal terms. The highest pace of depreciation of exchange rate was observed in May and in August (1.93% and 2.16%, respectively), and appreciation - in April and in September (3.02 % and 4.19%, respectively).

In 2007 the official KZT exchange rate against EURO depreciated by 6.01%, and KZT exchange rate against Russian Ruble depreciated by 2.07% (figure 4.1.1).

Figure 4.1.1

**KZT/US\$, KZT/Euro and KZT/Russian Ruble exchange rates
(% as compared with previous month)**



*

«+» stands for appreciation of KZT against foreign currency, «-» stands for depreciation of KZT against foreign currency.

In 2007 a considerable growth of foreign currency transactions on both Stock Exchange and interbank market was observed. The large trading volumes were determined by the continuous and considerable inflows of foreign currency earnings due to high world prices of energy resources and speculative intentions of the market participants. Another source of foreign currency supply was foreign borrowings attracted by banks.

So, the volume of stock exchange transactions in US dollars amounted to USD 73.3 bln, increased by 77.3% comparing with 2006. The volume of over-the-counter transactions of domestic banks increased 2.5 times as compared with 2006, and amounted to USD 110.7 bln.

The Russian ruble and Euro transactions took insignificant part of the stock exchange and over-the-counter markets transactions. The volume of transactions in Russian rubles on the stock exchange market increased 2.6 times, and amounted to RUR 411.3 million, while the volume of transactions in Euro grew 24 times and amounted to EUR 6 million. The volume of conversion transactions in Russian rubles in the over-the-counter market increased 2.2 times, and amounted to RUR 4,031.0 million, while the volume of conversion transactions in Euro decreased by 0.04% and amounted to EUR 373.8 million.

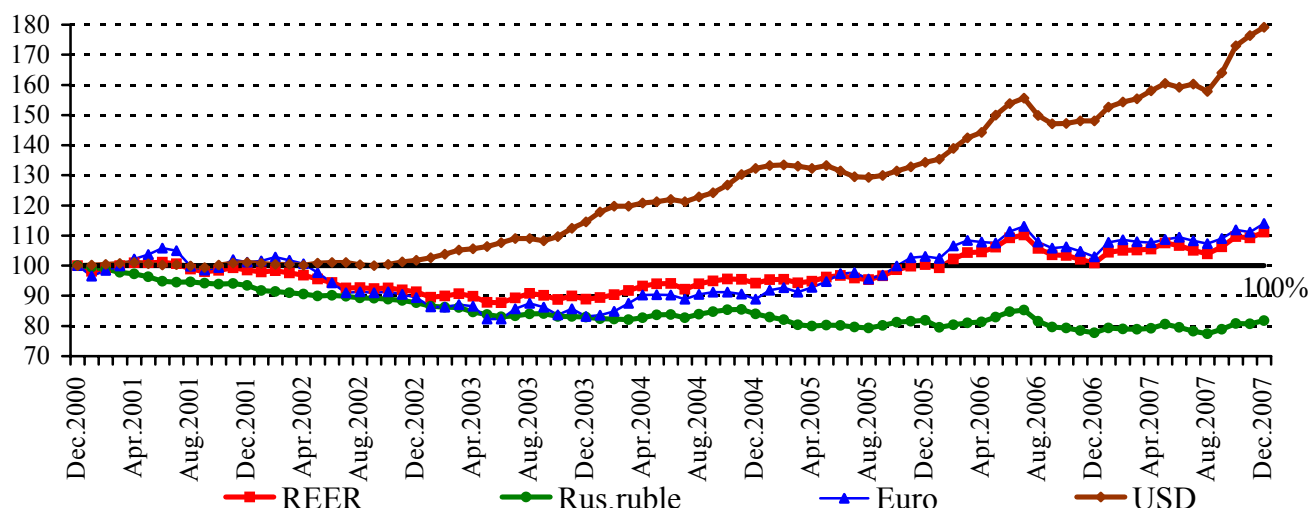
As in previous years, US dollar remained the preferable foreign currency in the cash foreign exchange market, and, therefore, in this market segment, US dollars purchases by physical persons prevailed. For example, in 2007, the net volume of US dollars sold by currency exchange offices amounted to 10.4 USD bln, growing by 45.5% as compared with 2006.

Over the year, the net volumes of Russian rubles sold with currency exchange offices grew by 54.9% and amounted to RUR 5.9 billion, and those of Euro grew by 94.8% and amounted to EUR 1.8 bln.

Although nominal exchange rates remained relatively stable, at the end of the year the inflation rate in Kazakhstan that outpaced the inflation rates in main partner countries, stipulate for the real appreciation of exchange rate of KZT. In late July REER index was only 4.1% higher than that of December 2006, or 5.1% higher than REER basic value calculated as of the end of 2000 (REER index in December 2000 was equal to 100%), and in late 2007 the real appreciation of KZT against currencies of countries - trade partner consisted 10.3% (or 11.2% to REER basic value) (Figure 4.1.2).

Figure 4.1.2

Real exchange rate, % (December 2000 = 100%)



In late 2007, REER index calculated against the currency basket of CIS countries was 5.4% higher than that of late December 2006. At the end of the year the KZT appreciated against the currencies of other countries by 12.4% in real terms.

The negative influence of KZT appreciation on competitiveness of Kazakhstan producers restricted by the prevalence of specialized goods trade in trade turnover of Kazakhstan with the foreign countries.. The goods that are most sensitive to relative change of exchange rate prevail in trade with the Russian Federation. However, the continued appreciation trend of the Russian ruble against main world currencies weakens the influence of the exchange rate on trade results with the Russian Federation.

4.2. Inter-bank money market

In 2007, the total volume of inter-bank deposits increased by 27.7% as compared with 2006, and it amounted to KZT 41.3 trillion in KZT equivalent. At the same time, banks increased the allocation of liquid assets in foreign currency and reduced the allocation of liquid assets in national currency.

The volume of inter-bank KZT deposits reduced by 33.2%, and amounted to KZT 6.1 trln (14.9% of all deposits). The share of KZT deposits was constantly decreasing during the year. If at the end of 2006 it amounted to 18.9% of all deposits, then in December 2007 it dropped to 5.1%. The considerable decline was observed in the second half of the year. The weighted average interest rate on inter-bank deposits grew from 4.45% in December 2006 to 6.94% in December 2007.

The volume of deposits attracted by the National Bank from banks dropped by 48.3% and in 2007 and amounted to KZT 4.2 trln. The share of the deposits attracted by the National Bank in total volume of KZT deposits has also decreased considerably since July 2007. For example, if in December 2006 it amounted to 13.3%, then, at the end of the year it amounted to about 1%.

At the same time, in 2007, the volume deposits denominated in USD increased by 46.5%, and amounted to USD 232.4 bln (or 68.9% of total deposits). Here the main part of USD deposits was allocated with foreign banks (93.4% of all dollar deposits). The weighted average interest rate on USD deposits decreased from 5.35% in December 2006 to 4.59% in December 2007.

The volume of deposits in Euro has grown, i.e. in 2007 it almost doubled and amounted to Euro 37.9 bln (or 15.5% of total deposits). The weighted average interest rate on Euro deposits grew from 3.38% in December 2006 to 3.82% in December 2007.

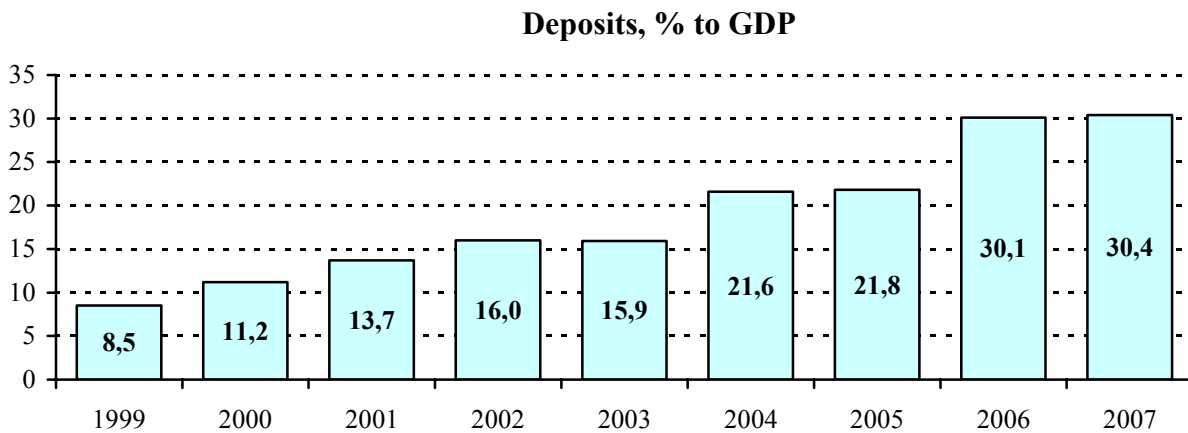
The volume of deposits denominated in Russian ruble has remained insignificant.

In general, the share of inter-bank foreign currency deposits remains to be high, or 85.1% of all deposits.

4.3. Deposit market

As a whole, in 2007 growth rates in the deposit market slowed down. For example, over 2007 the volume of residents' deposits placed in deposit organizations increased by 25.9% and amounted to KZT 3,873.9 bln (or USD 32.2 bln in USD equivalent) (figure 4.3.1).

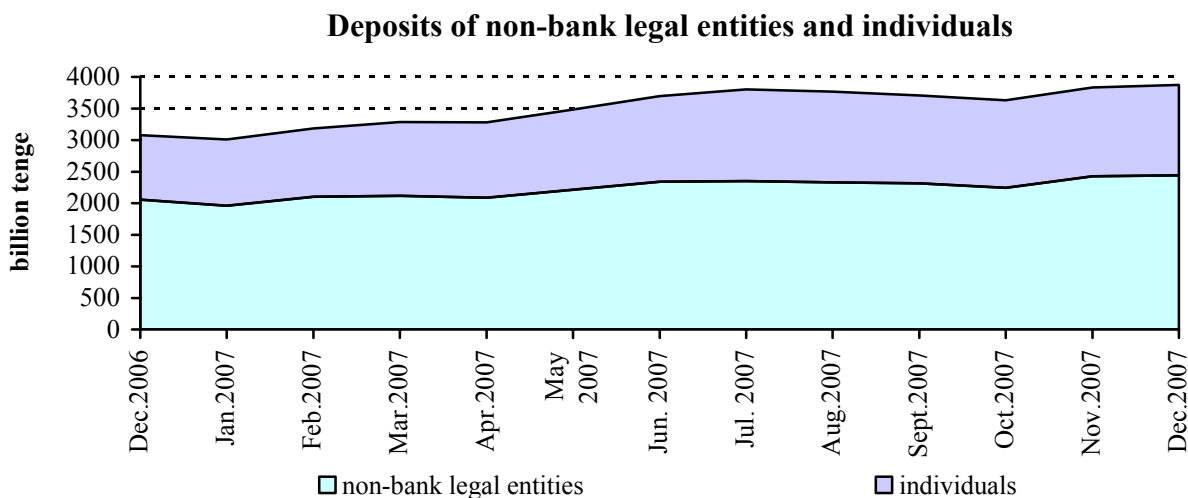
Figure 4.3.1



The volume of legal entities' deposits grew by 18.7%, and amounted to KZT 2,441.3 bln, while individuals' deposits grew by 40.5%, and amounted to KZT 1,432.6 bln.

On the background of influence of world liquidity crisis on the banking system of Kazakhstan, the deposits of residents in August through October decreased. The most significant decrease was observed in the deposits of individuals since they are more responsive to any changes in the situation in the financial sector. However, the growth of individuals' deposits volume in November-December completely compensated the previous fall (figure 4.3.2).

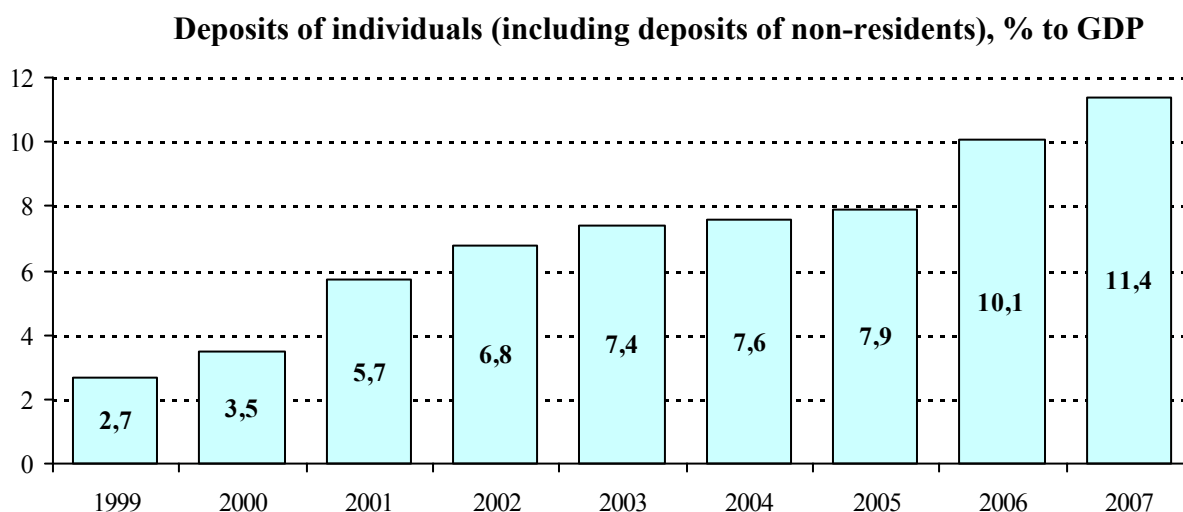
Figure 4.3.2



The important moment in the development of deposit market in 2007 was a growth of deposits in the national currency. For example, KZT deposits grew by 32%, and amounted to KZT 2,631.2 bln, while foreign currency deposits grew by 14.8% and amounted to KZT 1,242.8 bln. As a result, the specific weight of KZT deposits in total volume of all deposits grew from 64.8% to 67.9% (Appendix 1 to section IV subsection 4.3, figure 4.3.1).

In 2007, the growth rate of individuals' deposits slowed down (taking into consideration non-residents' deposits). In 2007 the average monthly volume of placement of deposits amounted to KZT 34.5 bln as compared with KZT 36.4 bln in 2006. As a result the physical persons' deposits grew by 40%, and amounted to KZT 1,447.8 bln or by almost USD 12 bln (figure 4.3.3).

Figure 4.3.3



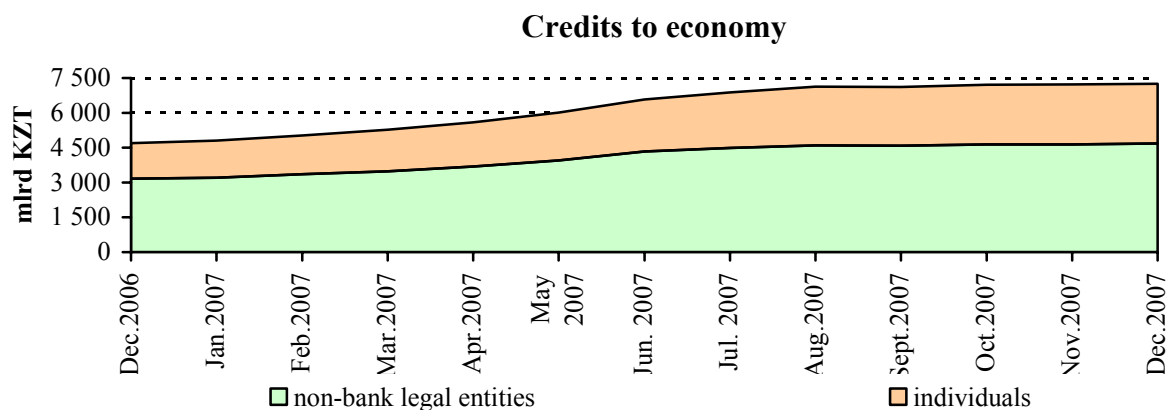
In the structure of deposits of population, there was an outpaced growth deposits in foreign currency deposits rather than in national currency. The individuals' foreign currency deposits grew by 58.1%, while the national currency deposits grew by 31.0%. As a result, the share of individuals' KZT deposits fell from 66.7% to 62.4%.

In 2007, the weighted average interest rate on the individuals' KZT time deposits grew from 9.8% to 11.5%, while that on foreign currency deposits grew from 7.4% to 9.5% (Appendix 1 to section IV subsection 4.3, figure 4.3.2).

4.4. Credit market

The main growth of credits to economy happened in the first half of 2007. In the second half of the year due to influence of unfavorable situation on world markets there was a slowdown of growth of credits to economy (figure 4.4.1).

Figure 4.4.1

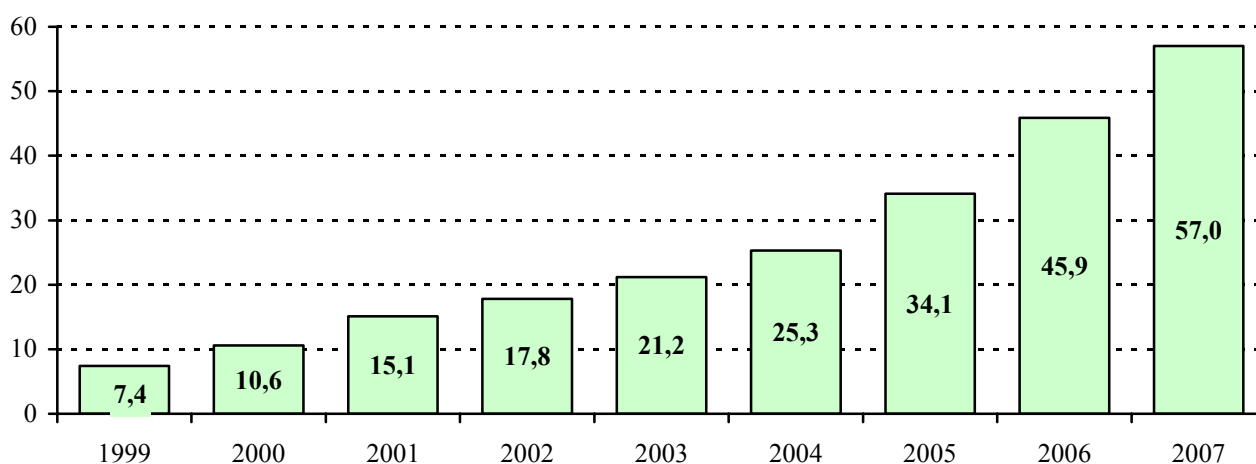


In general, in 2007 the volume of bank loans to the national economy grew by 54.7%, and amounted to KZT 7,258.4 bln (60.2 USD bln). In 2007 the ratio of bank loans provided to the national economy to GDP increased from 45.9% to 57.0% as compared with 2006 (figure 4.4.2).

The growth of credits in the national currency had an outpaced nature as compared with the growth of the foreign currency credits. In 2007 the national currency credits increased by 71.7%, and amounted to KZT 4,158.4 bln, while the foreign currency credits increased by 36.6%, and amounted to KZT 3,100 bln (or 25.7 USD bln). As a result, the share of KZT loans grew from 51.6% to 57.3%.

Figure 4.4.2

Credits to economy, % to GDP



In 2007 positive changes in the term structure of credits took place, where the growth of long-term credits (with maturity more than 1 year) had an outpaced character comparing with short-term credits. The long-term credits increased by 68.9%, and amounted to KZT 5,800.8 bln, while the short-term credits increased by 16.0%, and amounted to KZT 1,457.6 bln. The share of long-term credits increased from 73.2% to 79.9% (Appendix 1 to section IV subsection 4.4, figure 4.4.1).

The ratio of loans given to real sector enterprises to GDP increased from 30.9% in 2006 to 36.8% in 2007, while the ratio of loans provided to individuals to GDP increased from 15.0% to 20.3% respectively (Appendix 1 to section IV subsection 4.4, figure 4.4.2).

It was primarily caused by the extension of such types of the banking products as mortgage and consumer credits. For example, during 2007 the consumer crediting increased by 55.5%, and amounted to KZT 1,208.1 bln, and mortgage credits grew by 72.6% and amounted to KZT 683.6 bln.

In 2007, the volume of the bank loans provided to small enterprises grew by 75.2%, and amounted to KZT 1,508.2 bln or 20.8% of all loans provided to the national economy.

The weighted average interest rate on the national currency loans provided to individuals in December 2007 grew from 18.0% to 19.3% as compared with December 2006, and interest rate on the loans provided to legal entities grew from 12.2% to 14.8% (Appendix 1 to section IV subsection 4.4, figure 4.4.3).

4.5. Government securities market

In 2007, the volume of issuance of treasury notes of the Ministry of Finance was KZT 163.3 bln, or 5.5% more as compared with the previous year.

Despite the short-term liquidity crisis, the Ministry of Finance during the year increased volumes of issued securities. For example, in the first quarter the volume of securities placement amounted to KZT 19.8 bln, in the second quarter - KZT 40.1 bln, in the third quarter - KZT 40.3 bln, and in fourth quarter - KZT 63.1 bln. The demand on the securities of the Ministry of Finance from investors was high all the year round which testifies that the securities market is underdeveloped, and the volume of financial instruments is extremely insufficient.

At the same time, in 2007 the Ministry of Finance resumed issuing short-term treasury notes and long-term inflation-indexed treasury notes, while in 2006 it issued only middle-term and long-term treasury notes, and long-term savings treasury notes.

As a whole in 2007, 26 auctions were held (17 auctions in 2006) where all types of short-term MECCAMs, 3 year and 4 year MEOCAMs, long-term inflation-indexed 6 year MUICAM, long-term 7 year, 8 year and 10 year MEUCAM, and long-term savings 6 year, 8 year, 10 year and 15 year MEUZhCAM were offered.

The profitability of the securities offered at the last auctions is shown in table 4.5.1.

Table 4.5.1

No.	Type of security	Efficient profitability at the last auction
1	3 month MECCAMs	7.20%
2	6 month MECCAMs	8.54%
3	9 month MECCAMs	8.87%
4	12 month MECCAMs	9.22%
5	3 year middle-term MEOCAMs	3.38%
6	4 year middle-term MEOCAMs	6.35%
7	7 year long-term MEUCAMs	9.50%
8	8 year long-term MEUCAMs	10.00%
9	10 year long-term MEUCAMs	10.42%
10	6 year long-term inflation-indexed MUICAMs	0.5% + inflation rate
11	6 year long-term savings MEUZhCAMs	0.05% + inflation rate
12	8 year long-term savings MEUZhCAMs	0.07% + inflation rate
13	10 year long-term savings MEUZhCAMs	1.00% + inflation rate
14	15 year long-term savings MEUZhCAMs	1.00% + inflation rate

The profitability of practically all types of treasury notes grew as compared with previous auctions, except for middle-term 3 year MEOCAMs, their profitability in 2007 has not changed since 2006.

At the end of 2007 the securities circulation structure was as following: 10.91% of short-term MECCAMs, 47.38% of middle-term MEOCAMs, 9.83% of long-term MEUCAMs, 4.79% of long-term indexed MUICAMs, 27.04% of long-term savings MEUZhCAMs, and 0.04% of indexed MEICAMs.

In 2007 the redemption of the government bonds of the Ministry of Finance were amounted to the amount of KZT 31.9 bln.

As a result from the beginning of the year the volume securities of the Ministry of Finance in circulation grew by 35.14%, and at the end of December 2007 it amounted to KZT 511.1 bln.

The volume of issued National Bank notes in 2007 was KZT 4,257.1 bln, which is 11.1% more than that of 2006.

The volume of the redeemed National notes including interest payments in 2007 amounted to KZT 4,588.9 bln.

As a result, from the beginning of the year the volume of the National Bank notes in circulation decreased by 57.1%, and at the end of December 2007 it amounted to KZT 228.9 bln.

The efficient profitability of short-term notes increased from 3.62% in 2006 to 5.58% in 2007.

V. PAYMENT SYSTEMS

In 2007 the National Bank continued to improve normative legal acts on payments and money transfers, and mechanisms of supervising the payment systems, and modernizing technical infrastructure of the payment systems.

While interacting with international financial organizations and foreign central banks, the National Bank held the seventh meeting of representatives of central (national) banks on payment systems in Almaty in September of 2007. In this year, the meeting was held under the aegis of the World Bank within the Initiative on payment systems and securities settlement systems in the CIS countries also known as Payment Week. The representatives of the central banks of CIS countries, France, Switzerland, Latvia, China, and the European Central Bank, the Payment and Settlement Systems Committee of the International Settlements Bank and SWIFT took part in the meeting on payment systems. Such meetings are held to exchange with experience, to discuss urgent problems and trends in the central (national) banks' activities in development and efficient functioning of payment systems.

While forming the new reserve center intended to ensure uninterrupted functioning and to increase the National Bank's security, the National Bank formed 'Q-BRO Reserve Center of the National Bank of

the Republic of Kazakhstan' JSC. The organization and the relevant bodies of Astana City prepared for developing the land plot provided for construction of the Reserve Center (relevant contracts have been entered into). In addition, the Center prepared design estimates and specifications of project documentation, and submitted the requirements specification for designing the building of the Reserve Center.

In addition, the National Bank took part in implementing Payment Gateway Project of 'Electronic Government of the Republic of Kazakhstan' System, and it prepared and coordinated the projects of the Conception, the Requirements Specification and the Feasibility Study to build Payment Gateway. Payment Gateway Pilot Project of Electronic Government of the Republic of Kazakhstan was temporarily commissioned in Astana City on January 8, 2008.

In pursuance of Resolution No. 375 of the RoK Government dated May 10, 2007 'On implementation of RoK Presidential Decree No. 311 dated April 6, 2007' the National Bank transferred the government's share in 'National Processing Center' JSC to the Committee of State Assets and Privatization of the Ministry of Finance on gratuitous basis.

In addition, in 2007 the new structure of customers' bank accounts was approved based on international standard ISO 13616:1997 IBAN, and it is planned to start to use the standard from November 2009. Currently, the unified structure of customers' bank accounts is being implemented in the Republic of Kazakhstan.

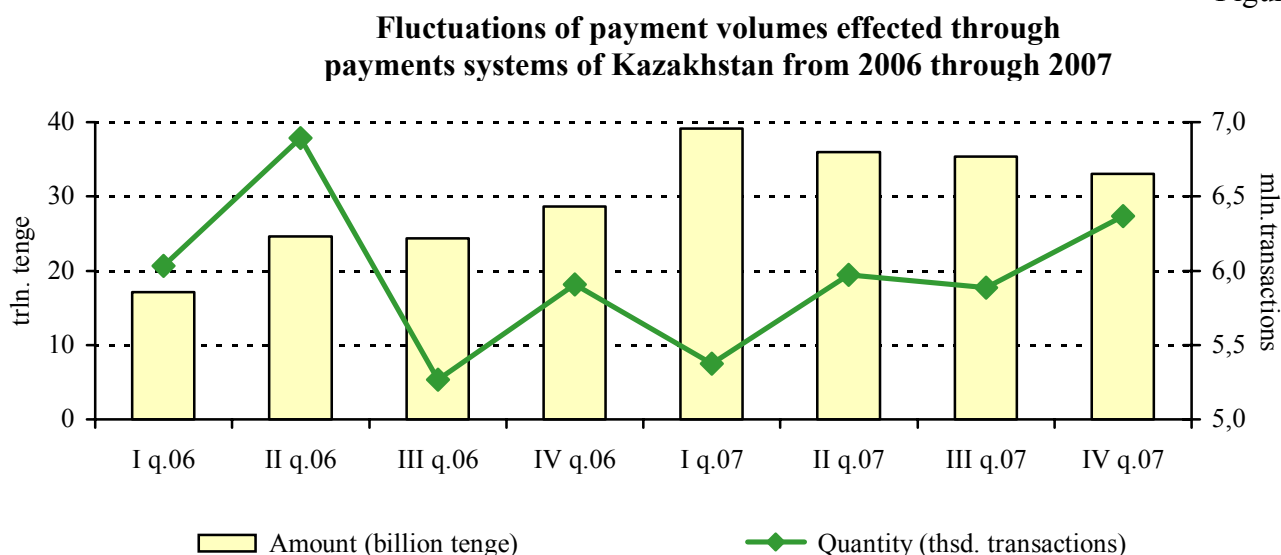
In order improve supervision over payment systems, the National Bank elaborated and approved the Rules of supervision over functioning of payment systems setting forth main objects to be supervised, and the supervision procedure.

As a whole, in 2007, 23.6 million transactions of KZT 143.5 trln (US\$ 1,170.6 bln) were effected suing the payment systems of Kazakhstan (figure 5.1).

As compared with 2006, cashless settlements grew by 51.5% (or by KZT 48.7 trln) while the number of payments fell by 2.1% (or 501.8 thousand transactions).

The number of payments fell while their total amount grew because the National Bank increased the maximum amount of one payment in the clearing system from KZT 3 mln to KZT 5 mln, and because pension payments were reduced due to starting to use new rules of operation of the State Center of Pension Payments (SCPP).

Figure 5.1.



5.1. Inter-bank money transfer system (MSPD)

As of January 1, 2008, 49³ users were registered in MSPD, including 34 banks and 'Kazakhstan Development Bank' JSC, the Committee of the Treasury of the Ministry of Finance, the Inter-State Bank

³ 48 users and CC KCIBS are registered on KCIBS' site.

and Eurasian Development Bank, the National Bank and Bank Custodian of the State Accumulative Pension Fund (the National Bank's Department of Account of Monetary Operations), the State Center of Pension Payments (there are 3 accounts for pension payments, social allocations and social payments) and 6 organizations engaged in specific bank operations.

MSPD is the key national payment system, it is important for ensuring proper circulation of cash flows in the country and, generally, financial system stability. MSPD is used to effect the largest and high-priority payments which makes it the biggest national system of cashless payments. For example, in 2007 MSPD processed 98.4% of all domestic cashless payments or 36.1% of all payments.

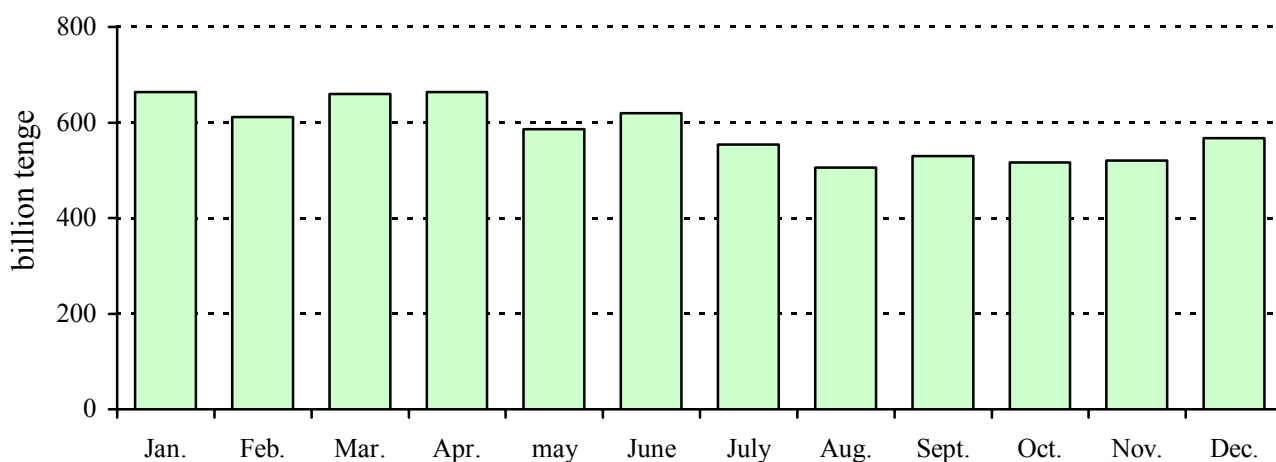
It was expedient to implement MSPD because it ensures permanent effectuation of money transfers during operation day among system users. In 2007, MSPD processed 8.5 million transactions for KZT 141.1 trln (US\$ 1,151.8 bln). As compared with 2006 the number of payments processed with MSPD grew by 2.6%, and the volume of payments grew by 52.1%.

In 2007 the average payment document processed with MSPD amounted to KZT 16.6 mln, and it grew by 48.3% as compared with 2006. In 2007, about 34.0 thousand transactions for KZT 546.6 bln were processed with MSPD every day, which means that the number of transactions exceeds that of 2006 by 2.2%, and the amount of transaction exceeds the relevant indicators of 2006 by 51.5%.

In 2007 the average daily volume of system liquidity (sum to be transferred by users into the system to effect payments and money transfers) amounted to KZT 582.2 bln, which is 66.1% more than that of 2006. The highest daily average liquidity was in January 2007, it amounted to KZT 663.2 bln, while the smallest liquidity occurred in August 2007, and amounted to KZT 505.4 bln (figure 5.1.1).

Figure 5.1.1.

**MSPD daily average liquidity
in 2007**



In accordance with the main function of MSPD ensuring that funds are transferred in real-time mode, as a rule users use this system to effect large or urgent payments on financial sector transactions. For example, in 2007, MSPD primarily processed payments on transactions with securities of residents of Kazakhstan (35.9% of all payments processed with MSPD), transactions with foreign currency and precious metals (25.1%), and on transactions with inter-bank deposits and transfers of banks' or their clients' own funds (18.9%).

The grown volume of payments processed with MSPD was primarily caused by grown payment volumes of payments on transactions with foreign currency and precious metals (3.2 times) and securities of residents of Kazakhstan (by 61.9%). The volumes of payments with inter-bank deposits and transfers of banks' or their clients' own funds fell by 15.7%. In 2007 the volumes of payments for goods and services amounted to 10.6% of all payments processed with system, the number of these payments grew by 32.4% as compared with 2006, while the volumes of payments to/from the state budget amounted to 4.0%, and these payments grew by 42.7%.

5.2. Interbank clearing system

As of January 1, 2008 the number of participants of Interbank Clearing System amounted to 33 including 26 banks, the Committee of the Treasury of the Ministry of Finance, the National Bank, Custodian Bank of the State Operations), the State Center of Pension Payments (there are 3 accounts: account for pension allocations, social allocations and social payments), and Kazpost JSC.

The importance of the Interbank Clearing System for the national economy is that it allows to effect most retail payments up to KZT 5 mln. For example, in 2007, 63.9% of all cashless payments in the country were effected through the Interbank Clearing System, and the sum of the payments amounted to 1.6% of all payments. In 2007 the largest number of payment documents processed with the clearing system (62.9% of all transactions) was payments with sum of KZT 10 thousand or less, which means that the system achieves its goal of processing mass payments with small amounts.

In 2007 the Interbank Clearing System processed 15.1 million payment documents for the amount of KZT 2,305.9 bln (US\$ 18.8 bln). As compared with 2006, the number of documents in the clearing system fell by 4.5%, and the amount of payments grew by 19.4%. In 2007 the average amount of one payment document in the interbank clearing system amounted to KZT 152.8 thousand, and as compared with 2006 it grew by 25.1%. On average, in 2007, the clearing system processed 60.4 thousand documents for the amount of KZT 9.2 bln every day, which means that the number of payments processed is 4.9% less than that of 2006 while the sum of payments is 18.9% more than that of 2006.

In order to analyze the velocity in the interbank clearing, the velocity ratio (VR) is used. For example, in 2007, the average daily VR amounted to 4.55, which means that the system has high velocity.

The Interbank Clearing System has liquidity risk and system risk if MSPD users' accounts have insufficient money to calculate their amount of net debit position. Therefore, the attention is paid to analysis of the sum of users' net position. In 2007, the share of the sum of users' net position in clearing in the sum of daily average circulation of MSPD users is negligible and is equal to 0.4% (as compared with 2006, when it amounted to 0.5%).

In 2007, most payments processed with the system were payments of economic entities for goods and intangible assets (its share amounted to 29.9% of all payments), services rendered (its share amounted to 25.2%), payments to the state budget (payment of taxes and other obligatory payments to the state budget), and payments from the state budget (its share amounted to 28.3%). As a whole, the volumes of payments for goods and intangible assets grew by 21.7%, payments for services rendered grew by 25.3%, while payments to and from the state budget grew by 31.2%.

5.3. Payment instruments

In 2007, banks and Kazpost JSC effected 132.1 million transactions for the amount of KZT 88,050.0 bln (US\$ 718.5 bln) using the payment instruments shown in table 5.3.1.

As compared with 2006 the number of payment instruments used grew by 26.1 million transactions (or by 24.6%), and their amount grew by KZT 31.9 trln (or by 56.7%).

The amount of payments grew because the number of payments using payment orders grew by 58.3%. The average amount of a payment order grew by 38.7% as compared with 2006, in 2007 it was equal to 2.4 KZT mln. The total number of payments grew primarily due to greater number of transactions using of charge cards which grew by 29.8%, and the number of transactions using payment orders which grew by 14.2%.

As compared with previous periods the types of payment instruments used for cashless payments did not change considerably.

As before, in Kazakhstan, the most widespread instruments are payment orders (26.7% of all cashless payments using the above payment instruments) and payment cards (65.6%).

At the same time, payment orders have the largest amount of a transaction (95.4% of all cashless payments using the above payment instruments). The amount of a transaction using payment cards is equal to 2.2% of total amount of cashless payments. Payment cards are used to effect many transactions while the amount of a transaction is small which means that payment cards are primarily used to withdraw cash money (in 2007, the average amount of a withdrawal of cash money was equal to KZT 22.7 thousand). In 2007 the average amount of a cashless transaction for goods and services using payment cards amounted to KZT 17.0 thousand, and as compared with 2006 it grew by 3.6%.

Table 5.3.1

Use of payment instruments

(000,000 transactions and KZT trln)

Payment instrument		2006		2007		Change (%)
		Absolute value	% of total volume	Absolute value	% of total volume	
Payment orders ⁴	Number	30.9	29.1%	35.2	26.7%	14.2%
	Amount	53.1	94.5%	84.0	95.4%	58.3%
Payment request	Number	0.1	0.1%	0.2	0.2%	70.1%
	Amount	0.04	0.1%	0.1	0.2%	3.1 times
Collection orders	Number	0.3	0.3%	0.5	0.4%	43.9%
	Amount	0.3	0.5%	0.2	0.2%	- 36.3%
Payment cards	Number	66.8	63.0%	86.7	65.6%	29.8%
	Amount	1.2	2.2%	1.9	2.2%	52.8%
Other instruments ⁵	Number	7.9	7.4%	9.4	7.1%	19.9%
	Amount	1.5	2.7%	1.8	2.1%	18.1%
Total	Number	106.0	100.0%	132.1	100.0%	24.6%
	Amount	56.2	100.0%	88.1	100.0%	56.7%

The number of payment requests used (0.2% by quantity and amount of transactions), collection orders (0.4% by quantity and 0.2% by amount of transactions) and other instruments (7.1% by quantity and 2.1% by amount of transactions) is negligible.

Payment cards. Payment card market is one of the most promising areas of financial sector, and it continues to develop rapidly and efficiently. Currently, the market offers a lot of services and great number of various card programs. For example, using a payment card one can pay for goods and services in shops and restaurants, pay for public utilities, communication services, taxes and custom payments, redeem loans, transfer money from card to card. That is why more and more people prefer to use payment cards in effecting cashless payments to suppliers of goods and services. As of January 1, 2008 there are on an average one payment card per 3 people, while as of January 1, 2007 there were only one payment card per 4 people.

Payment cards are issued with 19 domestic banks and 'Kazpost' JSC. At the same time, in domestic market one can meet cards of both international and local payment systems. The local payment cards include such card systems as Alтын Card, SmartAlemCard, Caspian, KazCard, TemirCard and local cards of 'Tsesnabank' JSC and 'Citibank Kazakhstan' JSC. The domestic market also has such international payment cards as VISA International, Europay International, American Express International, Diners Club International, and China Union Pay.

As of January 1, 2008 the total number of circulating payment cards amounted to 5.6 million which is 36.9% than that of the respective period of 2007 (figure 5.3.1).

The number of card holders grew by 35.7%, and as of January 1, 2008, it amounted to 5.3 million. As before, the most popular are Visa International and Europay International cars, which contribute 96.4% of all circulating cards. Currently, 25.3% of Kazakhstan residents use Visa International card.

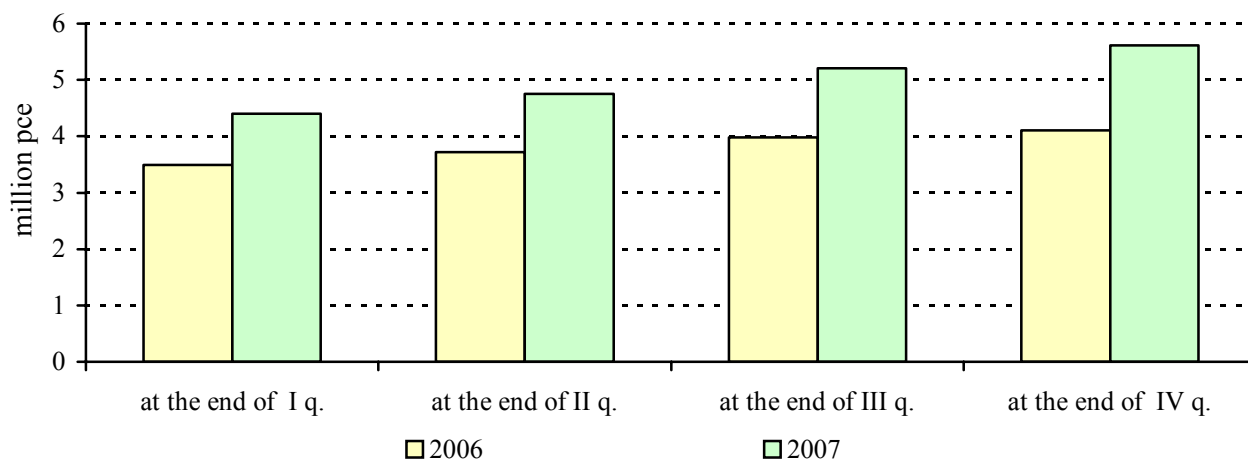
Alтын Cards are the most popular local cards (they contribute to 2.1% of all circulating cards).

Figure 5.3.1.

⁴ Payment orders of banks' clients and Kazpost JSC and banks' and Kazpost JSC's payment orders for their own transactions are included.

⁵ Other payment instruments include checks to pay for goods and services, letters of credit honored, and direct debiting a bank account.

Number of circulating payment cards from 2006 through 2007

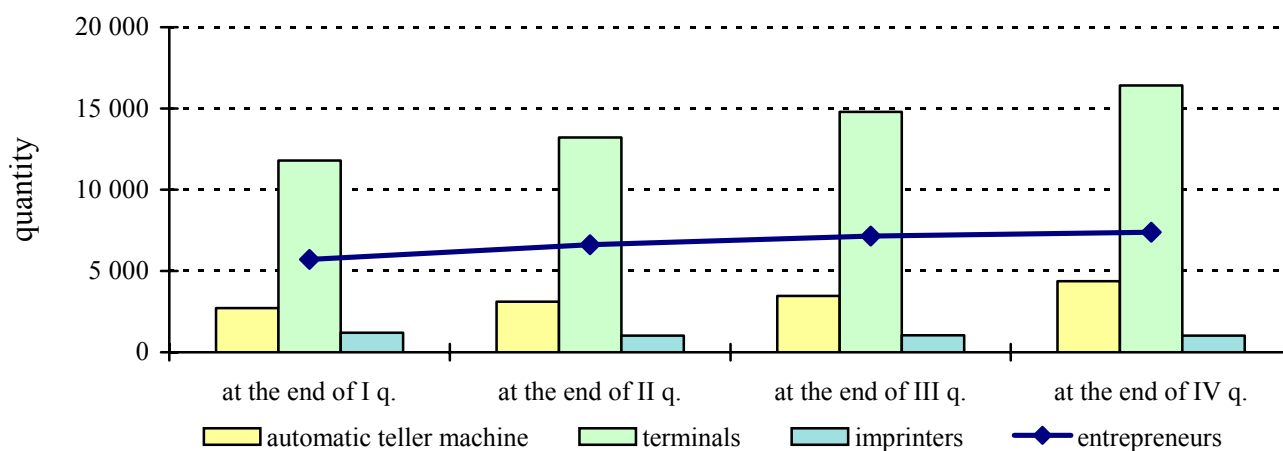


As of January 1, 2008, there were 7,391 domestic trading enterprises accepting payment cards, which is 38.5% more than on January 1, 2007. At the same time, entrepreneurs installed equipment for payment of goods and services using payment cards at 10,987 trading points (48.5% more).

The domestic payment card network is as follows: 16,412 trading terminals, 4,364 automatic teller machines, and 1,033 imprinters. As compared with respective period of 2006, the number of trading terminals grew by 51.5%, the number of automatic teller machines grew by 92.5%, while the number of imprinters fell by 21.6%, because manufacture of outdated imprinters was stopped (figure 5.3.2).

Figure 5.3.2.

Fluctuations of entrepreneurs and payment card equipment in 2007



In 2007, 86.7 million transactions for amount of KZT 1,897,2 bln (US\$ 15.5 bln) were effected in Kazakhstan and abroad using payment cards issued by Kazakhstan issuers. As compared with 2006 the number of transactions grew by 29.8%, and the amount grew by 52.8%.

At the same time, 74.2 million transactions on withdrawal of cash using cards issued with Kazakhstan issuers for amount of KZT 1,684.4 bln were effected (85.5% of total number and 88.8% of total amount of payments). In 2007 12,5 million transactions for the amount of KZT 212.8 bln were effected to pay for goods and services using payment cards issued with Kazakhstan issuers (14.5% of total number, and 11.2% of total amount of payments).

Although in Kazakhstan, payment cards are used mainly to withdraw cash, more cashless payments are effected, namely, the total number of cashless payments grew by 56.8% while the number of transactions of withdrawal of cash grew by 26.1%. The amount of cashless payments effected in Kazakhstan using payment cards issued with Kazakhstan issuers grew by 51.2%, while the amount of transactions of withdrawal of cash grew by 53.0%.

VI. REGULATORY ACTIVITY

In 2007 the National Bank continued to strengthen lawfulness and to ensure that the National Bank's normative legal acts comply with the current laws of the Republic of Kazakhstan, and that the National Bank, its divisions, and financial market participants applied the laws of the Republic of Kazakhstan in the same and correct way, and that normative legal acts on currency regulation and control, monetary payments and transfers, and cash circulation are improved.

In order to regulate the activities, the functions and the powers of the National Bank, other government bodies and financial organizations, and to improve the financial and bank laws on payment systems, and to implement RoK Law dated January 12, 2007 'On making amendments and additions to certain RoK laws on licensing', and to improve the National Bank's structure, the National Bank elaborated one RoK Law and one RoK Presidential Decree:

RoK Law 'On making amendments and additions to certain RoK laws on improvement of RoK laws on payments and money transfers, bookkeeping and financial reporting of financial organizations and activities of the National Bank of the Republic of Kazakhstan', and it is planned that the Law will be considered in May 2008;

and RoK Presidential Decree No. 527 'On making amendments and additions to RoK Presidential Decree No. 1271 dated December 31, 2003', which was signed by the President of the Republic of Kazakhstan on January 30, 2008, and consummated on the signing date.

40 normative legal acts of the National Bank were registered in the Ministry of Justice. These normative legal acts regulate:

- opening, maintaining and closing bank accounts of banks' clients in the Republic of Kazakhstan;
- submission of financial reports, deadlines of publication of financial reports, submission of financial reports using electronic media by financial organizations, accumulative pension funds, mortgage organizations, special financial organizations and organizations engaged in specific bank operations, banks, (re) insurance organizations and insurance brokers;
- selecting external asset managers and performing investment operations of the National Fund;
- using payment documents and effecting cashless payments and money transfers in the Republic of Kazakhstan without opening an account;
- establishing correspondent relations among banks and organizations engaged in specific bank operations;
- performing operations by the National Bank of REPO;
- maintaining auxiliary accounting and ledger incorporated in automated system by certain participants of financial market of the Republic of Kazakhstan;
- standard chart of accounts for certain participants of financial market of the Republic of Kazakhstan;
- standard chart of accounts with detailed accounts to prepare the Ledger of banks or mortgage companies;
- keeping accounting records of operations with pension assets performed by accumulative pension funds of the Republic of Kazakhstan, and on insurance and re-insurance operations on 'general insurance' and 'life insurance', trust operations and custodial activities of banks;
- keeping accounting records by banks and Kazakhstan Development Bank JSC;
- arranging export and import currency control, currency exchange operations; performing foreign currency operations;
- licensing and regulating collection of banknotes, coins and valuables of legal entities which are not banks;
- arranging protection and preparing buildings of banks and organizations engaged in specific bank operations.

In 2007, the National Bank performed legal expert appraisal of 287 drafts laws, RoK Presidential Decrees, resolutions of the Government, instructions of the RoK Prime-Minister, administrative or other legal acts elaborated with other ministries or departments of the Republic of Kazakhstan.

VII. THE NATIONAL BANK'S INTERNATIONAL COOPERATION AND PUBLIC RELATIONS

7.1. International cooperation

Cooperation with far abroad countries. During 2007 the National Bank arranged the work of missions of international rating agencies Moody's, Standard & Poor's and Fitch Ratings. From July 6, 2007 through July 13, 2007 Moody's Investors Service's analysts visited Kazakhstan to prepare annual report on the national social and economic conditions and to confirm/raise the sovereign credit rating of the Republic of Kazakhstan. In 2007, the investment credit rating of Kazakhstan assigned on June 9, 2006 by Moody's Investors Service in respect of long-term foreign currency governmental notes remained as before, Baa2, and in respect of long-term foreign currency notes, it remained A2; in respect of short-term foreign currency notes it remained P-1; and Baa1 for long-term national currency government notes, while in respect of long-term and short-term foreign currency bank deposits it remained Ba1/NP, which did not change. The forecast is stable in respect of all the above ratings.

The delegation of international rating agency Standard & Poor's visited Almaty from March 19, 2007 through March 22, 2007. The visit was coordinated with the Ministry of Economy & Budget Planning. As a result, Standard & Poor's stated that the long-term sovereign rating of the Republic of Kazakhstan in respect of foreign currency liabilities is BBB, and the long-term sovereign rating in respect of national currency liabilities is BBB+ as of April 5, 2007. In addition, the agency stated that the short-term sovereign rating of the Republic of Kazakhstan on foreign currency liabilities is A-3, and that short-term sovereign rating in respect of the national currency liabilities is A-2.

On December 3, 2007, Standard & Poor's lowered the sovereign credit ratings of Kazakhstan in respect of long-term foreign currency liabilities from BBB to BBB-, and in respect of long-term national currency liabilities from BBB+ to BBB, and in respect of short-term national currency liabilities from A-2 to A-3, with forecast 'stable'. At the same time, the short-term credit rating in respect of the foreign currency liabilities was stated to be A-3, and according to the national scale it is kzAAA. The lowering of ratings reflects the funding problems in the financial system of Kazakhstan, and is caused by the problems associated with refinancing of international syndicated loans and foreign interbank deposits which resulted in reduction of the National Bank's gold and currency assets, and growth of interest rates in the interbank market, and sharp growth of domestic lending.

From September 30, 2007 through October 4, 2007 the National Bank was coordinating the visit of analysts of international rating agency Fitch Ratings. On October 8, 2007 Fitch Ratings stated that the sovereign credit ratings of the Republic of Kazakhstan in respect of long-term foreign currency liabilities is BBB and that in respect of long-term national currency liabilities it is BBB+, while the short-term foreign currency rating is F3. The forecast of the ratings was changed from 'positive' to 'stable'. On December 14, 2007, the meeting of the Rating Committee of Fitch Ratings was held on the sovereign credit rating of the Republic of Kazakhstan. After holding the meeting, Fitch Ratings stated that the long-term issuer default rating (hereinafter referred to as IDR) of Kazakhstan in the foreign currency is BBB while long-term IDR in the national currency is BBB+. In addition, the agency stated that the Country Ceiling for Kazakhstan is BBB+ and that short-term national currency IDR is F3. The forecast on long-term IDR is lowered from 'stable' to 'negative'.

During 2007, the National Bank's top management visited conferences and forums in far foreign countries. From February 21, 2007 through February 24, 2007 the National Bank's top management visited London (United Kingdom) to participate in *Corporate Leaders of Kazakhstan Conference*. From September 27, 2007 through September 29, 2007 the National Bank's top management visited the city of Budva (the Republic of Montenegro) to take part in the 18th Meeting of the Central Bank Governors' Club of the Central Asia, Black Sea Region and Balkan Countries. On April 20, 2007, the National Bank's top management took part in the meeting of the Council of Inter-State Bank. From November 26, 2007

through November 28, 2007, the National Bank's top management visited Moscow to participate in the regular meeting of Inter-State Bank and Inter-State Currency Committee.

During 2007, the National Bank continued to elaborate the mechanism of establishing and functioning the Special Fund (account) of Shanghai Organization of Cooperation (SOC). From June 18, 2007 through June 19, 2007, the meeting of the Commission of senior officials responsible for foreign economic and foreign trade activities of SOC was held in Beijing. At the meeting the officials discussed establishing of SOC Development Fund and measures on completion of the draft document. In addition, in order to coordinate the SOC Member Countries measures on functioning of financial and bank systems, developing of multilateral and bilateral payment and settlement relations, and other cooperation guidelines within competences of central (national) banks of the SOC Member Countries, the National Bank proposed to establish the Council of top managers of central (national) banks of SOC Member Countries (hereinafter referred to as 'the Council'), like the Council of top managers of central (national) banks of EurAsEC Member Countries. Because all the Parties except for China elucidated their opinions on establishment of the Council, currently, the National Bank is coordinating the establishment of the Council with China.

On June 11, 2007, in Almaty, the National Bank held the third meeting of Kazakhstan and China Subcommittee on financial cooperation where representatives of central banks and commercial banks of the Republic of Kazakhstan and People's Republic of China, RoK Financial Supervision RoK Agency for regulation of activities of Almaty Financial Center, 'Kazakhstan Mortgage Company' JSC, 'Small Business Development Fund' JSC, 'National Processing Center' JSC, 'First Credit Bureau' LLP, the PRC Bank Monitoring Commission, PRC State Currency Regulation Institution, the PRC Ministry of Foreign Affairs, the PRC Securities Market Regulation Commission, PRC Insurance Regulation Commission, PRC Export Lending Insurance Organization, and China Unionpay Company took part. The meeting was devoted to discussion of governmental financing of small & medium business in Kazakhstan and in China, the ways Kazakhstan and Chinese companies may enter the securities markets of both countries, experience of Kazakhstan and China in providing individuals with dwelling, trade financing cooperation, financing large projects, customer services, export lending insurance, involving commercial banks in development of financial markets in both countries, and alleviating the requirements to foreign banks. In order to extend the cooperation on bank cards, 'Halyk Saving Bank' JSC and China Unionpay entered into a contract for acquiring services of China Unionpay cards in Kazakhstan. In addition, at the meeting the National Bank demonstrated its intention to open of its representative office in the People's Republic of China. This initiative was approved with China, and currently the National Bank is coordinating with China the functions and the location of the Representative Office of the National Bank of Kazakhstan in China. In addition, at the meeting the Parties signed the Protocol on amending the Agreement between the National Bank of the Republic of Kazakhstan and the People's Bank of China on interbank settlements on trade transactions in trans-border areas (Beijing, 2005), in order to determine check-points where the relevant settlements on goods and services from both Parties will be effected.

The fourth regular meeting of Kazakhstan-Chinese Committee on cooperation was held in Astana City from November 8, 2007 through November 9, 2007. The National Bank's representative took part in the meeting. At the meeting, the Parties stated that its subcommittees successfully develop cooperation particularly, it is Kazakhstani-Chinese financial cooperation subcommittee.

As a whole in 2007, the National Bank's top management visited foreign countries 14 times. The National Bank regularly arranges hospitality events for foreign delegations. In the reporting period (2007) 69 meetings were prepared and held.

Cooperation with international financial organizations. The National Bank's top management regularly takes part in annual meetings of international financial organizations such as International Monetary Fund, World Bank, European Bank of Reconstruction and Development.

On February 8, 2006, a letter of agreement 'Financial Sector Governance' on technical assistance was signed between Asian Development Bank, the National Bank and the RoK Government. During 2007 the National Bank continued to obtain technical assistance under the TP 4431-KAZ: 'Financial Sector Governance' program of Asian Development Bank. The National Bank's interested divisions formed the working group to determine and to purchase software according to the technical assistance program. In addition, local consultants continue to provide the National Bank with their recommendations on financial

assets management under the technical assistance project. The working group familiarized and, generally, approved the intermediate reports of local consultants on components 'Information Technologies' and 'Improvement of system of management of the National Bank's foreign exchange reserves and the National Fund. From March 20, 2007 through April 2, 2007, Mr. Guy Berard, International Consultant on Risk Management visited the National Bank under the technical assistance project in order to discuss the National Bank's risk management structure, and the role of risk management in improving the system of management of the National Bank's foreign exchange reserves and the National Fund.

From May 21, 2007 through June 8, 2007, and from August 27, 2007 through September 6, 2007, Mr. Warren Coats and Mr. David Kemme, International Consultant of Asian Development Bank, visited the National Bank under the technical assistance program for component 'Inflation Targeting'. The advisors held seminars for the National Bank's employees on transition to inflation targeting. From November 5, 2007 through November 9, 2007, the National Bank's top management and members of the working group on models of short-term forecast of the most important indicators of basic economic sectors visited the National Bank of the Czech Republic to be trained and to study the experience of the National Bank of the Czech Republic in implementing inflation targeting.

On April 25, 2007, in Almaty, the National Bank and the International Monetary Fund held Regional Conference on Managing strong foreign exchange inflows in the Southern Caucasus and Central Asian countries'. Top managers of International Monetary Fund, national (central) banks of countries of Southern Caucasus, Central Asia, Switzerland, Pakistan, international financial institutions (World Bank, Asian Development Bank, Eurasian Bank of Development), the RoK Government, the RoK Financial Supervision Agency, and the Association of Financiers of Kazakhstan took part in the Conference. At the Conference the most urgent issues such as strategy and economic policy of management of large foreign currency inflows, including the problems central banks may face when stable foreign currency inflows come, and central banks' experience in implementing the monetary policy and the exchange rate policy, and experience in lowering risks associated with foreign currency inflows.

Cooperation with CIS countries. In 2007, the National Bank developed bilateral cooperation with CIS countries. From March 19, 2007 through March 20, 2007, in Saint-Petersburg, a regular meeting of Sub-commission on interbank and investment cooperation was held. At the meeting, the Parties decided to continue cooperation in exchange with information and experience in management of central banks' reserves, performing monetary operations and ensuring financial stability.

From December 11, 2007 through December 12, 2007, in Almaty, a regular 9th meeting of Sub-commission on interbank and investment cooperation between the Republic of Kazakhstan and the Russian Federation was held. At the meeting the following issues were discussed: housing savings as a tool to improve individuals' housing conditions in the Republic of Kazakhstan; Kazakhstan investments in Russian securities (double nominal holding, recognition of the foreign Central Depository); determination of legal status of an agent of issue, exchange and redemption of shares of mutual investment funds in fundamental normative legal acts of the Republic of Kazakhstan; keeping to prepare for signing draft inter-state bilateral and multilateral (within EurAsEC) agreements on exchange with credit information exchange among credit bureaus; condition of national financial markets of Kazakhstan and Russia in connection with fluctuations of international capital markets; influence of liquidity crisis in the world financial market on bank sectors of Kazakhstan and Russia. In addition, at the meeting, investment cooperation between the Republic of Kazakhstan and the Russian Federation, and implementation of initiative of the President of the Republic of Kazakhstan on creating Eurasian Bankers' Club were discussed. After holding the meeting, the Parties stated that banks of Russia and Kazakhstan succeeded in establishing correspondent relations, developing documentary business, and creating conditions for growth of mutual investments. It was stressed that these guidelines are promising to be developed in future.

On December 12, 2007 in Almaty, the constituent meeting of Eurasian Bankers' Club was held. At the meeting, the president and the board of guardians of Eurasian Bankers' Club were elected. The representatives of the Central Bank of the Russian Federation, the National Bank of the Republic of Kazakhstan and RoK Financial Supervision Agency became the members of the board of guardians. At the constituent meeting, the constituent agreement of Eurasian Bankers' Club, Collective Address of the

Eurasian Bankers Club's founders to heads of CIS countries, and Activity Plan of the Eurasian Bankers' Club for 2008 were signed and approved.

In 2007, the National Bank was preparing Protocol on making amendments and additions to Article 13 of the Agreement on status of Baikonur Town, procedure of forming and status of the city's executive authorities dated December 23, 1995. At the meeting of the expert group on Baikonur Town when a meeting of Kazakhstan and Russian Inter-governmental commission was held (from November 23, 2007 through November 27, 2007, Astana City), the experts of the Parties agreed and approved draft Protocol on making amendments and additions to Article 13 of the Agreement on status of Baikonur Town, procedure of forming and status of the city's executive authorities dated December 23, 1995 elaborated with the National Bank. After the meeting, the National Bank started procedures on signing the draft Protocol.

In 2007, the National Bank participated in the Council of top managers of central (national) banks of EurAsEC member countries (hereinafter referred to as 'the Council'). The National Bank took part in the Council's meeting held in Dushanbe from June 7, 2007 through June 8, 2007. At the meeting the Recommendations on development of money and currency markets of EurAsEC member countries were approved, and it was decided to enter into the Agreement on information cooperation and exchange with experience in fighting against coinage offence, and in addition, the Program on international mobile exhibitions of EurAsEC countries' national currencies to be held from 2007 through 2012 and the International program of issuance and sale of collector's precious metal coins of EurAsEC countries from 2008 through 2011, and the 2007 through 2008 Activity Program of the Council of top managers of central (national) banks of EurAsEC member countries were approved.

From October 11, 2007 through October 12, 2007, in Almaty, the 18th meeting of the Council was held. At the meeting, its participants discussed the summary analysis of currency payments associated with commodity turnover, and volumes of export and import of goods and services among EurAsEC member countries in 2006, and fluctuations of exchange rate of the national currencies of EurAsEC member countries and considered the reasons for fluctuations, condition of balance of payments of the EurAsEC member countries, and fluctuations of international reserves using the definitions set forth with Special standard of IMF data distribution, and quantitative values of macro economic indicators describing how much the economies of the EurAsEC member countries converged. In addition, the meeting participants discussed cooperation in development of bank sector and bank supervision in the EurAsEC member countries, implementation of corporate management in banks of the EurAsEC member countries, and analysis of credit risks occurring in trans-border lending in the EurAsEC member countries, and considered the issue of forming the Council of top managers of central (national) banks of the SOC member countries.

The Council developed and agreed with central (national) banks of the Parties the draft Agreement of fundamental principles of currency policy of the EurAsEC member countries to regulate and to control capita flows. At the 36th meeting of EurAsEC Integration Committee (July 17, 2007, Moscow) decision No. 788 was taken to approve the draft Agreement. It was recommended to start in-country procedures on preparing for entering into the said Agreement. The National Bank completed the in-country procedures in December 2007. On December 28, 2007 the RoK Government took Resolution No. 1337 'On entering into the Agreement of fundamental principles of currency policy of the Eurasian Economic Community member countries to regulate and to control capital flows'.

On November 27, 2007, the 13th regular meeting of Interstate Currency Committee was held in Moscow. The National Bank's representatives took part in the meeting. At the meeting the following issues were discussed: changes in membership of the Interstate Currency Committee, draft Agreement on information & analytical and consulting cooperation among central (national) banks of the CIS countries, draft Agreement on basic principles of currency regulation and control policy in the CIS countries.

In 2007, the National Bank regulated debt issues among Kazakhstan and Azerbaijan, Moldova, Georgia, Lithuania and Turkmenistan, which arose as a result of trade and economic relations from 1992 through 1993. The National Bank's representatives took part in the meetings of intergovernmental commissions, and meeting of experts of the Republic of Kazakhstan and Azerbaijan (July 23, 2007 through July 25, 2007, Almaty), the Republic of Kazakhstan and Georgia (April 2, 2007, Tbilisi), the Republic of Kazakhstan and Moldova (April 18, 2007, Astana, and June 26, 2007 through July 27, 2007,

Chisinau), the Republic of Kazakhstan and Turkmenistan (March 15, 2007 through March 16, 2007, Astana, and November 28, 2007 through November 30, 2007, Ashgabat) and the Republic of Kazakhstan and Lithuania (September 17, 2007 through September 18, 2007, Astana).

7.2. The National Bank's Public Relations

According to its goals, in order to form and to improve the promotion policy of the National Bank's image as the state body, and in order to determine how the National Bank's image is seen by people and experts, and in order to determine the National Bank's place and role in the society, the National Bank has conducted sociological research for three years.

From June 2007 through August 2007 the National Bank and 'Image Partner' communication group conducted the third sociological research on theme 'the National Bank as state body', intended to determine the National Bank's place and role in the system of state bodies, and to check how people and experts perceive and are informed of the National Bank and its functions, and to change the attitude of people and experts to the National Bank's activities. The results of the sociological research were used to adjust the National Bank's relations with mass media.

Publications in domestic and foreign mass media. In order to explain the main guidelines of the National Bank's monetary policy and activities, the National Bank arranged 5,479 addresses and publications in domestic and foreign mass media including 3,286 materials in printed editions, 940 materials on news tickers of information agencies, 1,011 materials in electronic mass media, and 242 materials on websites.

1,741 materials on the National Bank's activities were placed in the provincial mass media. In the same period, the Kazakh language editions published about 900 materials mentioning the National Bank.

The National Bank received about 250 inquiries from domestic and foreign mass media in 2007. To all inquiries complete replies were provided.

Newspaper 'Yegemen Kazakstan' published 3 pages in Kazakh language titled 'The National Bank of the Republic of Kazakhstan informs, explains, and comments', and newspaper 'Kazakhstanskaya Pravda' published the same 3 pages in Russian language monetary policy, currency regulation, payment systems, National Fund, mortgage lending, cash circulation and stock market issues were popularly explained.

According to resolutions of the National Bank's Board and instructions of top management, the National Bank's normative legal acts, official information, and announcements of governmental procurement tenders were published in republican newspapers 'Yegemen Kazakstan', 'Kazakhstanskaya Pravda', 'Zan Gazeti', 'Yuridicheskaya Gazeta', 'Governmental Procurement Bulletin'. Over 200 announcements were published in 2007.

Relations with domestic TV and radio stations. In 2007, in order to explain the economic reforms implemented and to strengthen people's confidence in the financial system of the Republic of Kazakhstan, and to cover news and trends of financial and economic markets, TV Channel 31 broadcast weekly information and analytical television program of the National Bank titled 'Territory of tenge' oriented to everyone. This is information and analytical program covering news and trends of financial and economic markets.

This television program of the National Bank should:

- ensure that people know more about the national financial sector, roles of such state bodies as the National Bank, Financial Supervision Agency, Agency for regulation of activities of Almaty Financial Center, the Government, and the Parliament of the Republic of Kazakhstan) ensuring stability of basic macroeconomic indicators;
- cover governmental monetary policy, provide area for regulating bodies' and private financial institutions' spokesmen to exchange with their opinions;
- show opinions of state bodies or commercial entities on further development of financial market.

The TV program involved the National Bank's specialists and spokesmen of Financial Supervision Agency, Association of Financiers of Kazakhstan, banks, Deputies of the Parliament of the Republic of Kazakhstan, spokesmen of the Government, the Administration of President of the Republic of Kazakhstan, official spokesmen of regulating state bodies, top managers of banks, pension funds and insurance companies, and security market specialists. In 2007, the TV program was broadcast 45 times.

From April 2007 through December 2007, Radio 31 radiocast daily three minute program of the National Bank titled 'Territory of tenge' where the National Bank's top managers and specialists spoke and were interviewed. This radio version of program 'Territory of tenge' is intended to provide public with financial information, to help people be actively involved in operations with financial instruments, to inform people about conditions and perspectives of development of stock market, inflation rate, currency regulation and control, monetary policy, the Conception of development of financial sector, the Regional Financial Center of Almaty, replacement of old-design banknotes, development of mortgage lending, accumulative pension system, etc.. In 2007, the program was radiocast 182 times.

In 2007 the National Bank and REC-STUDIO Public Fund of Support and Development of Central Asia Mass Media created new television project titled 'Working money' where spokesmen of the National Bank, Financial Supervision Agency, Agency for regulation of activities of Almaty Financial Center were interviewed as experts. This program has been broadcast with Khabar Agency since March 2007, and it is designed to be 'elementary school' for everyone. Project 'Working money' easily explains how people can make their money to work in stock market, and as a whole, the program covers the domestic stock market and existing financial instruments using theatricals. It is expected that the final goals of the project is to involve local people in the activities of the national stock market.

This direction of the National Bank's public relations ensures that so called 'middle class' is involved, which is one of indicators of proper economic development.

Relations with information agencies. The National Bank actively works with information agencies Interfax-Kazakhstan, KazInform, Kazakhstan Today», Reuter, Dow Jones Newswires, and Bloomberg.

The National Bank's top management gives its exclusive interviews and arrange briefings for certain agencies in respect of the most important events (lowering of country rating by Standard & Poors, comments on financial market, and award 'The best new banknote', and awarding the National Bank with international award 2007 Vicenza Numismatica, awards of the National Bank at the First International Competition of Coins of CIS and Baltic countries 'Coin Constellation 2007'.

Relations with the foreign mass media. In order to form positive image of the Republic of Kazakhstan abroad, and to explain basic guidelines of monetary policy and conditions of national financial sector, Institutional Investor magazine published 5 special pages with information materials covering the activities of the National Bank of the Republic of Kazakhstan.

205 materials mentioning the National Bank were published in foreign mass media.

Since 2005, the National Bank is the information partner of 'Watermark magazine, the founder and publisher of which is Water Mark LLP. The information materials are annually provided to this magazine in accordance with the themes of the magazine. In 2007, the magazine asked the National Bank to provide information materials 6 times: on newly issued memorable coins, coin series, coins issued under international coin programs, on interesting technologies used in manufacture of coins, on market and sale of memorable coins.

Monitoring domestic mass media. In 2007 the National Bank monitored domestic mass media publishing materials on domestic financial sector and bank system, and prepared 240 daily reviews 'Mass media about the National Bank's activities' and 240 daily reviews 'Mass media about financial system', which allows be informed of the National Bank and to quickly response and to take relevant decisions.

While monitoring domestic mass media 5,479 messages and articles were found an analyzed.

Challenged activities. While financial markets were adjusting and affecting bank system of Kazakhstan the second half of 2007, the National Bank used the basic PR tools for people (press conferences, interviews with the National Bank's top managers and specialists, publications in printed and electronic mass media, television projects, etc.).

The National Bank's top managers and specialists commented and were interviewed with printed and electronic mass media in respect of latest events in bank system of Kazakhstan in such TV programs as Business Meken, Country. Reforms. Personality, Working money, Economic Kazakhstan, and Seven days on Khabar TV Channel; Tenge, News and show-program What to do? on KTK TV channel; in programs 20.30 and Business News on Astana TV and radio channel (TRC); in programs Business News, Focus of Attention, Territory of Tenge on TV Channel 31; in program Everything about investments, and talk show Kokpar on Kazakhstan National TV channel; in program News Tan on TAN TV; on Almaty

TV, and ERA-TV; in information agencies Interfax Kazakhstan, KazInform, Kazakhstan Today, Reuter, Bloomberg, Dow Jones Newswires, in newspapers Business and Power, Caravan, and in such internet editions as Position.kz, Kazakhstanskaya Pravda, Capital, Metropolitan Life, Business Week, magazine Exclusive, etc.

In addition, after daily monitoring of mass media, publications and press conferences were analyzed, and it was concluded that printed and electronic mass media gave objective information on influence of USA subprime crisis on domestic financial system and on lowering of country rating.

Press conferences and briefings for mass media. The National Bank arranged 15 press conferences including a press conference jointly with State Accumulative Pension Fund JSC, one press conference jointly with the Association of Financiers of Kazakhstan, ABN-AMRO Bank, Kazakhstan Stock Exchange; and 4 briefings for mass media.

In the reporting period, the National Bank issued 50 press releases on the official refinancing rate, current situation on financial market, international reserves and reserve money, and approval of 2006 annual report of the National Bank.

Issuance of printed editions of the National Bank of the Republic of Kazakhstan. In order to inform foreign and domestic state bodies and financial entities about statistical data of the National Bank's monetary policy, normative legal acts, and analytical materials, the National Bank issues its periodicals published in 2007: 'Bulletin of the National Bank of Kazakhstan', 'Statistical Bulletin', 'Payment balance and foreign debt of the Republic of Kazakhstan', 'Economic Review', 'Inflation review', Annual report of the National Bank of the Republic of Kazakhstan in Kazakh/Russian and English languages, 'Russian-Kazakh dictionary of bank terms', and digests of the National Bank's normative legal acts.

VIII. IMPROVING BOOKKEEPING AND FINANCIAL REPORTING

In 2007 the National Bank continued to improve normative legal acts on bookkeeping and financial reporting in accordance with the International Financial Reporting Standards (hereinafter referred to as IFRS).

Particularly, the National Bank examined the current normative legal acts and methodical recommendations explaining how financial organizations must carry out bookkeeping and implement IFRS, in accordance with the National Bank's function to ensure state regulation of bookkeeping and financial reporting system in financial organizations and special financial companies. After examination, the National Bank developed the schedule of activities on improvement and development of bookkeeping and financial reporting system in financial organizations and special financial companies according to IFRS. In accordance with the schedule, in 2007, the National Bank elaborated normative legal acts and recommendations ensuring that bookkeeping covers the operations not set forth with the current normative legal acts, or to cancel or replace any obsolete or unused normative legal acts and recommendations.

For example, amendments were made to the financial reporting forms to be used with pension funds, professional participants of security market, mortgage organizations, special financial companies, organizations engaged in specific bank operations, insurance (re-insurance) organizations and insurance brokers, in order to introduce new linear items reflecting operations with investment real estate or assets intended for sale, derivative financial instruments, estimated liabilities, etc. As a whole, these organizations' financial reporting is brought in conformity with current IFRS and RoK Law 'On bookkeeping and financial reporting' adopted in the new edition in February 2007.

In addition, in order to improve bookkeeping procedures in financial organizations, amendments were made to the Standard charts of accounts to be used with banks and certain participants of financial market. In addition, new balance accounts were introduced for derivative financial instruments, long-term assets intended for sale, investment real estate, reinsurance assets and depreciation reserves, liabilities on preference shares, estimated liabilities, goodwill, and incomes from recovery of reserves. At the same time, the accounts of unpaid capital, reserves of revaluation of previous years, extraordinary incomes/expenses and others were excluded.

In order to ensure that financial organizations submit financial statements to the authorized body in a timely manner, the deadlines of financial organizations' auditor reports to be submitted with auditor

organizations to Financial Supervision Agency were set. In addition, new (more flexible) deadlines were set for financial organizations to submit their financial reports to Financial Supervision Agency depending on whether any subsidiaries are available, i.e. April 1 is the deadline for non-consolidated financial statements, and April 30 is the deadline for consolidated statements. It will allow to reduce pressure on auditor organizations and, therefore, will help financial organizations to submit their financial statements to Financial Supervision Agency in a timely manner.

The financial reporting table forms to be submitted to Financial Supervision Agency were cancelled for banks. IFRS describes in detail basic requirements to financial reporting and disclosure of information on financial status and organizations' performance. Thus, banks were allowed to prepare financial statements independently but in compliance with IFRS and the National Bank's general requirements. It was necessary to do to minimize labor, financial and other costs associated with preparing and auditing financial statements, and features of the operations performed with every bank.

In accordance with the Conception of development of financial sector from 2007 through 2011, in order to increase the level of automation of bookkeeping and preparation of financial states according to IFRS, and to form the reliability control system and to improve quality of financial statements, and to exclude any human errors, the Rules of automation by banks and Bank of Development of Kazakhstan JSC of auxiliary bookkeeping and the Ledger in 2007.

In connection with transition of accumulative pension funds and insurance (re-insurance) organizations to IFRS, the National Bank elaborated the requirements to auxiliary bookkeeping and the Ledger incorporated in automated information systems for certain participants of financial market, and the requirements were similar to those to banks.

Simultaneously, in order to check whether the current requirements to bookkeeping automation are complied with, the National Bank examined 13 pension funds and 34 insurance organizations, and as a result, relevant reports were submitted to Financial Supervision Agency to consider and take relevant measures of influence.

In order to improve bookkeeping of the operations performed in 2007, the National Bank planned to make amendments and additions to the bookkeeping instructions of a number of financial organizations. For example, the complete bookkeeping instructions for banks, instructions of bookkeeping of investment activities of certain financial market participants and instructions of bookkeeping by banks of trust operations and custodian activities were elaborated and approved. The instruction for special financial companies is completed with the section on bookkeeping of investing temporarily free proceeds from separate assets in derivative financial instruments.

The bookkeeping instruction for insurance organizations and insurance brokers was brought in conformity with IFRS 4 'Insurance contracts' setting forth that the insurer is not entitled to set off reinsurance assets against respective insurance liabilities, or to set off reinsurance contract income or loss against insurance contract income or loss, and if assignor's reinsurance asset is depreciated, then, the assignor is obliged to decrease the carrying amount of the asset, and to recognize this depreciation in the Income Statement. In this connection, the definition of reinsurance assets and the necessity to conduct the obligatory test on depreciation of assets were added to the bookkeeping instruction for insurance organizations and insurance brokers. In addition, certain definitions and names of balance accounts in were brought in conformity with one another. As a whole, the said Instruction was brought in conformity with all current requirements of International Financing Reporting Standards and the current laws of the Republic of Kazakhstan.

In order to improve the procedure of bookkeeping of operations with pension assets performed with domestic accumulative pension funds, the Instruction on bookkeeping of operations with pension assets performed with pension funds is completed with the accounting procedure setting forth the case of depreciation of financial instruments in which pension assets are invested, and expenses on deals and amounts of negative commission fees.

In 2007, the National Bank paid special attention to the fact how unrealized incomes and expenses from revaluation of financial instruments influenced the investment income of the reporting period, by increasing (decreasing) the growth of pension accumulations of depositors. Taking into consideration the fact that there cases when fair cost is manipulated, i.e. overpricing of quotations and recognition of non-existing unrealized incomes, the information disclosed with pension fund on conditions of depositor's

individual pension account indicates the amounts of unrealized incomes/expenses which are unlikely to be sold (actual obtaining). Therefore, the National Bank participated in activities of the Working Group on evaluating and recordkeeping financial instruments which was formed with order No. 289 of the National Bank's Chairman dated November 30, 2006 (hereinafter referred to as the Working Group), and prepared a few proposals in order to resolve this problem, and it is planned to check whether the proposals will be effective in 2008.

The employees of the National Bank and the Financial Supervision Agency took part in conservation procedure as members of the temporary Administration for Accumulative Pension Fund 'Valut-Tranzit Fund' JSC, i.e. they acted as head of the bookkeeping service.

While implementing the Conception of development of financial sector of the Republic of Kazakhstan from 2007 through 2011, the National Bank elaborated training guide 'Financial reporting in financing organizations according to International Financial Reporting Standards' containing recommendations on practical application of IFRS. The guide was submitted to the Ministry of Education and Science of the Republic of Kazakhstan for approval of its publication. In addition, the same Working Group elaborated its proposals on making amendments and additions to the current laws in order to provide proper definitions and procedure of taxation of derivative financial instruments.

In order to improve tax laws, the National Bank checked whether current capital adequacy standard is efficient. After such check, the National Bank proposed to make amendments to RoK Code of taxes and other obligatory payments to the state budget to extend definition 'interest' and to apply the norm to everyone irrespectively of resident status. These proposals were included in draft RoK law 'On making amendments and additions to certain RoK laws on issues of taxation'.

In order to increase the professional skills of financial organizations' employees, and to ensure efficient application of international financial reporting standards, the National Bank delivered lectures and held seminars for banks, insurance organizations, and accumulative pension funds, and taught MBA students at Kazakh Economic University named after Turar Ryskulov, and in addition, the National Bank arranged internships for delegates of the Central Bank of Ukraine and the Central Bank of Turkmenistan to familiarize themselves with the National Bank's experience in implementing and applying IFRS.

At the same time, in 2007 the National Bank's employees passed training seminar on recordkeeping of financial instruments held by foreign specialists invited with USAID. In order to raise their professional skills, five National Bank's employees passed the preparation courses for diploma on ACCA DipIFR international financial reporting.

IX. ASSET MANAGEMENT SERVICES

9.1. Management of the National Fund

As of December 31, 2007 the total market value of the National Fund's currency portfolio was equal to US\$ 21.0 bln, and the market value of the stabilization portfolio amounted to US\$ 3.2 bln (15.42%), while the market value of the savings portfolio was equal to US\$ 17.8 bln (84.58%). The market value of securities and other financial instruments included in the National Fund's portfolio is based on data provided by custodian bank for the National Fund, BNY Mellon Asset Servicing B.V.

According to custodian bank, BNY Mellon Asset Servicing B.V., the investment income (realized and unrealized ones) from January 1, 2007 through December 31, 2007, denominated in functional (basic) currency, US dollars, was equal to US\$ 1,685.3 mln. According to custodian bank, BNY Mellon Asset Servicing B.V., taking into consideration the deal expenses, the adjusted investment income amounted to US\$ 1,681 mln from January 1, 2007 to December 31, 2007.

Profitability of the National Fund's asset management

The National Fund's profitability amounted to 9.92% from January 1, 2007 through December 31, 2007. From the date of the Fund's formation through December 31, 2007 the National Fund's profitability amounted to 47.80%, or 6.11% per annum. The profitability was calculated using the National Fund's basic currency, US dollars (Appendix 1 to section IX subsection 9.1, figure 9.1.1).

The profitability of the stabilization portfolio from January 1, 2007 through December 31, 2007 was equal to 6.67%, while the profitability of the benchmark (Merrill Lynch 6-month US Treasury Bill

Index) was equal to 5.61%. Thus, in 2007, as a result of management of the stabilization portfolio assets, the positive outperformance was equal to 1.06%.

In 2007, the US market was characterized by interest rates decrease which resulted in fall of yield maturities of the government bonds, and therefore, to growth of its prices.

The profitability of the savings portfolio from January 1, 2007 through December 31, 2007 was equal to 9.94%. The profitability of the benchmark from January 1, 2007 through December 31, 2007 was equal to 10.05%⁶. In 2007, the outperformance of the savings portfolio was negative and amounted to (-) 0.11% (Appendix 1 to section IX subsection 9.1, figure 9.1.2).

The results of management of the savings portfolio assets for all types of mandates were positive. However, in 2007 the biggest profitability was achieved for Global equities mandate and Global fixed income mandate. For example, the profitability for the first type of mandate amounted to 10.52%, while for the second type of mandate it was equal to 9.96% in 2007. The profitability of the savings portfolio assets managed for Global tactical asset allocation mandate amounted to 7.52% in 2007 (Appendix 1 to section IX subsection 9.1, figure 9.1.3).

The management of the savings portfolio assets for Global fixed income mandate. The savings portfolio assets for this mandate are managed by both the National Bank, and international asset management companies (external managers). As of December 31, 2007, the savings portfolio assets for this mandate managed with the National Bank amounted to 93.72%, while the other 6.28% of this sub-portfolio assets were externally managed (Appendix 2 to section IX subsection 9.1 figure 9.1.4).

The profitability of management of the fixed income sub-portfolio assets or savings portfolio assets for Global fixed income mandate amounted to 9.96% in 2007. The profitability of the benchmark of this sub-portfolio amounted to 10.43%. Thus, outperformance of management for this mandate amounted to (-) 0.46% in 2007.

As a result of management of the savings portfolio assets for Global fixed income mandate in 2007, the outperformance of the assets externally managed was equal to (-) 0.50%, while the outperformance of the assets managed with the National Bank was equal to (-) 0.26% (Appendix 3 to section IX subsection 9.1 table 9.1.1).

Management of savings portfolio assets for Global equities mandate. The savings portfolio assets for Global equities mandate are managed only with international asset management companies (external managers).

The profitability of asset management for this mandate was equal to 10.52%, while the profitability of benchmark was equal to 8.49%. Thus, the result of asset management for this mandate as compared with the benchmark was positive, and the outperformance amounted to 2.03%.

Management of savings portfolio assets for Global Tactical asset allocation. The savings portfolio assets for Global Tactical asset allocation are managed with 2 international asset management companies (external managers).

The profitability of management of the savings portfolio assets for this mandate was equal to 7.52%, while the profitability of benchmark was equal to 10.05%. Thus, the result of management of the savings portfolio assets for this mandate as compared with the benchmark was negative, and the outperformance amounted to (-) 2.53%.

The profitability of management of the benchmark for bonds from January 1, 2007 through December 31, 2007 was equal to 10.43%, and the profitability for shares was equal to 8.49% (Appendix 3 to section X subsection 9.1 table 9.1.2).

Due to change of world financial markets situation in the second half of 2007, in order to keep the National Bank's assets and to support sufficient liquidity, the National Bank interrupted investing the National Fund's assets in corporate securities, and therefore, increased the share of safer government bonds.

⁶ Since October 1, 2006:

- 75% is composite bond index of Merrill Lynch (45% is ML US Treasury; 30% is ML EMU Direct Govts; 10% is ML UK Gilts; 10% is ML Japan Govts; 5% is ML Australian Govts);

- 25% is composite share index (45% is S&P500; 30% is DJ STOXX 50 €; 10% is Nikkei 225; 10% is FTSE 100; 5% is S&P/ASX).

Any further making amendments to the Rules of performance of investment operations of the National Fund will be considered with the National Bank subject to the situation in the world financial markets.

9.2. The National Bank's customer services including custodial activities, brokerage, etc.

As the custodian, in 2007, the National Bank continued to serve 2 clients, namely, GNPf Accumulative Pension Fund JSC and Bank of Development of Kazakhstan JSC. As of January 1, 2008 the National Bank kept only assets of GNPf Accumulative Pension Fund JSC amounting to KZT 205.1 bln. The total amount of the assets of the clients served with the National Bank as custodian grew by 31.3% as compared with the previous year. In 2007, pension payments of KZT 38.4 bln were made to the custodial account of GNPf Accumulative Pension Fund JSC, while transfers from other accumulative pension funds amounted KZT 5.3 bln, fines for untimely transfer of obligatory pension payments amounted to KZT 0.5 bln, and KZT 719.7 bln were returned after investments were finished. At the same time, KZT 14.7 bln were paid from the custodial account of GNPf Accumulative Pension Fund JSC as pension accumulations, transfers of accumulations to other accumulative pension funds and insurance organizations, income tax, returns of incorrect amounts, and in addition, KZT 737.7 bln were invested.

In the reporting period the National Bank managed the assets of the following 9 clients: Kazakhstan Fund of Guaranteeing Deposits JSC, Kazakhstan Mortgage Company JSC, National Processing Center JSC; Fund of Guaranteeing Insurance Indemnities JSC; State Insurance Corporation for Insuring Export Loans and Investments JSC, Kazakhstan Investment Fund JSC, Kazakhstan Fund of Guaranteeing Mortgage Loans JSC, State Social Insurance Fund JSC, Kazakhstan Center of Inter-bank Settlements RSE. In the second half of 2007 the National Bank entered into Money and Securities Management Contract No. 367NB with Fund of Guaranteeing Insurance Indemnities JSC dated September 24, 2007, and contract No. 396NB with National Processing Center JSC dated October 10, 2007 instead of previous contract No. 291 dated September 5, 2003 and contract No. 452 dated December 2, 2003, respectively. In December 2007, the National Bank cancelled Money and Securities Management Agreement No. 145 dated April 27, 2004, and entered into Agreement No. 04-04-20/454 with Kazakhstan Fund of Guaranteeing Mortgage Loans JSC dated November 7, 2007 according to client's notice obtained. As of January 1, 2008 the total amount of the clients' assets being managed was equal to KZT 151.6 bln, and grew almost twice as compared with similar indicator of 2006.

In 2007 the National Bank provided brokerage services to SAMRUK, Kazakhstan State Asset Management Holding JSC. As of January 1, 2008, the cost of government bonds in the client's portfolio amounted to KZT 5.9 bln.

The basic indicators on the operations of the National Bank's clients are indicated in Appendix 1 to section IX subsection 9.2.

X. ORGANIZATION AND INTERNAL ACTIVITIES

10.1. Organizational structure

The National Bank's structure and total number of personnel (3,580 positions) were approved with RoK Presidential Decree No. 1271 'On approval the Regulations and structure of the National Bank of the Republic of Kazakhstan' dated December 31, 2003.

In 2007, the National Bank's organizational structure was not changed. As of the end of the reporting period, the National Bank consisted of the head office including 11 departments (one department is located in Astana City), 10 independent directorates, 1 independent section, 18 branches, the National Bank's Representative office in the Russian Federation, and 4 subordinate organizations (Appendix 1 to section X subsection 10.1).

In addition, the National Bank is the founder of Kazakhstan Fund of Guaranteeing Deposits JSC, Fund of Guaranteeing Insurance Indemnities JSC, Kazakhstan Actuarial Center JSC, Q-BRO Reserve Center of NBK JSC (100.0% shares are owned by the National Bank). In addition, the National Bank is one of shareholders of GNPf Accumulative Pension Fund JSC.

According to RoK Government's Resolution No. 762 dated September 3, 2007 'National Analytical Center under the Government and the National Bank of the Republic of Kazakhstan' JSC was established with the authorized capital of US\$ 2.0 bln. The National Bank and the Government of the Republic of Kazakhstan are this entity's shareholders with 50% shares each. As of the end of 2007, the National Bank was the sole shareholder, because it paid up its share in full.

10.2. Human resources policy

As of the end of 2007, the National Bank's personnel did not change as compared with 2006. The joint stock companies' personnel grew by 39.8% which is caused, mainly, with increase of personnel of GNPF Accumulative Pension Fund JSC, and establishment of 'Q-BRO Reserve Center of NBK' JSC.

As of the end of 2007, the National Bank's personnel decreased by 0.4% as compared with 2006, and the joint stock companies' personnel grew by 23.8% (Appendix 1 to section X subsection 10.2, table 10.2.1).

At the end of the reporting period the National Bank's personnel turnover was equal to 15.8%. As compared with 2006, the turnover grew by 4.2 %.

The personnel turnover in the National Bank's head office grew by 2.1 %, and, amounted to 13.8%. In branches, this indicator grew by 5.6 % and amounted to 16.3 %. The personnel turnover at the National Bank's organizations grew by 3.4 %.

The personnel turnover in National Bank's joint stock companies grew by 0.8 % as compared with 2006.

The educational profile of the National Bank's personnel shows that 61.5% of all employee have higher education, 16.1% employees have secondary special education, and 22.4% employees have secondary education. At the same time, over 60% of employees with secondary education are workers.

The educational profile in the National Bank's organizations is as follows: 53.5% employees with higher education, 27.8% employees with special secondary education, and 18.7% employees with secondary education.

The educational profile in the National Bank's joint stock companies is as follows: 90.4% employees with higher education, 8.1% employees with special secondary education, and 1.5% employees with secondary education.

70.7% employees of the head office are females, in branches 59.8% employees of branches are females, 42.1% employees of organizations are females, 69.7% employees of joint stock companies are females. At the same time, in the National Bank's head office and branches 40.3% of managers are females (22.2% of top managers are females, and 77.8% of middle level managers are females).

The most stable personnel of the National Bank are employees working from ten years to twenty years, like it was in 2006. There are 25.1% of such employees. There are 20% of employees working up to one year, 18.6% of employees working from one year to three years, 9.2% of employees working from three years to five years, and 19.8% of employees working from five years to ten years. The employees who worked over twenty years are few (7.3%).

The personnel is a principal and key factor of achieving current and strategic goals of the National Bank. The performance depends on employees' skills, professional competences and business qualities. Therefore, in 2007, the National Bank's human resources policy was intended to stimulate employees which is another key element of administrative reform.

Thus, according to the National Bank's Human Resources Strategy approved with Resolution No. 75 of the National Bank's Board of Directors dated March 25, 2004, the National Bank took the following measures.

The procedure of rotation of the National Bank's personnel and the procedure of new employees' adaptation at the National Bank were elaborated and approved.

In 2007, ten competitions were held to fill 62 vacancies of administrative civil positions at the head office and 12 positions in the National Bank's branches. 138 nominees took part in the competitions. There were 30 winners. 4 persons were registered in the personnel reserve of the Agency for Civil Service Affairs.

81 administrative civil servants of the National Bank were examined to check whether they correspond to their positions, and as a result, 80 persons correspond to their positions.

The National Bank works on improving the rating system. In the reporting year, the National Bank rated its branches using head office divisions as rating providers in order to keep the principle of uniform rating and stimulating policy. It was shown that the 1st place was occupied by East-Kazakhstan branch, the 2nd place was occupied with North-Kazakhstan branch, and the 3rd place was occupied with the National Bank's head office.

In order to form and to support the effective human resources system, the employees of the National Bank and domestic financial organizations have been actively trained.

For example, in 2007, the number of trainees was as follows: 666 people attended training courses and internships at the National Bank (including 90 employees of third party organizations); 300 people at the domestic training centers; 56 employees of the head office and branches were trained in CIS countries (52 and 4 employees of third party organizations, respectively); and 120 employees of the head office (117) and branches (3) were trained in far foreign countries.

The number of employees trained domestically grew by 32% as compared with 2006, and those trained in CIS countries grew by 1.8%, while those trained abroad grew by 6.2%. The number of the National Bank's employees trained at the National Bank itself decreased by 7.4%, while the number of employees of the third party organizations trained at the National Bank grew by 61.1%.

In order to accelerate transition to international financial reporting standards, the National Bank arranged seminars for the third party organizations on international financial reporting standards, and seminars on new labor laws, governmental procurements laws, and seminars on determining counterfeit money for employees of the National Bank's subsidiary organizations and joint stock companies. In addition, certain employees passed internships on legal issues and governmental secret protection issues. According to the public relations program, the National Bank held a seminar for financial and bank sector journalists. As a whole, 90 employees of the third party organizations were trained.

In 2007, 4 seminars were held at the National Bank for the National Bank's employees under 'Technical assistance in management of financial sector' project arranged with Asian Development Bank, which seminars were held with company De La Rue, USAID, and invited representatives of the National Bank of Belgium who lectured on internal audit issues.

6 employees who are in the personnel reserve of political civil service as approved with order No. 02-01-02/48 of the Chairman of the Agency for Civil Service Affairs dated March 24, 2006 passed internships at the National Bank and the Financial Supervision Agency.

In order to develop cooperation with central (national) banks of CIS countries and according to Program of professional training of managerial staff and specialists of central (national) banks of EurAsEU member countries, in 2007 6 employees passed internships on statistics and external debt forecasting, analysis of balance of payments, PR issues, museum activity and asset management (19 employees), and 9 employees of the National Bank of Ukraine and the Central Bank of Turkmenistan passed internships at the National Bank on bookkeeping issues. 22 employees of the National Bank participated in international seminars, and 4 employees passed internships in 2007.

In addition, the National Bank held the meeting of representatives of central (national) banks on payment systems.

In connection with consummation of new RoK Labor Code, the National Bank brings the National Bank's normative legal acts on labor relations in conformity with the RoK Labor Code. For example, the normative legal acts on internal labor routine in the National Bank, training, raising skills, business trips of the National Bank's employees, and internship for students at the National Bank, human resources, wage and social payments, and on statistical and tax reporting at the National Bank's branches, formalization of employees' documents on labor relations at the National Bank's human resources service, and on contracts of complete material responsibility with the National Bank's employees to be entered into, registered and stored were improved. The standard employment contracts with the National Bank's managers and employees were approved, and the additional agreements to employment contracts were entered into.

In pursuance of RoK Presidential Decree and Resolution of the RoK Government on implementation of the State program of functioning and development of languages from 2001 through 2010, and to determine the basic priorities of development of official language at the National Bank, the National Bank's Board of Directors took a resolution approving the National Bank's Activity Plan from

2007 through 2008 on implementation of the State program of functioning and development of languages from 2001 through 2010 (hereinafter referred to as the Plan). In the reporting period according to the said Plan, the National Bank held a competition on proficiency in official language among employees of the National Bank's head office and branches. The competition was devoted to the Day of Languages of Peoples of Kazakhstan.

In 2007, the permanent Commission for preparing the National Bank's standard forms, resolutions and other documents approved and submitted 78 standard forms in official language to divisions for independent preparation.

The National Bank examined its four branches to check whether the official language is implemented.

To increase competitiveness of financial system employees, the National Bank actively trains its employees and employees of domestic financial organizations on the following specialties: Financial Analyst, Financial Risk Manager, Actuary, and Insurance Business.

In order to ensure in-service training under MBA program at Kazakh Economic University named after T. Ryskulov (hereinafter referred to as the Magistrates), training is kept in the evening and as correspondence course (46 and 83 persons, respectively).

In 2007, 39 new Masters graduated from two-year Magistrates. 23.1% of graduates were employed with the National Bank, 33.3% of them were employed with Financial Supervision Agency, 38.5% of them were employed with banks or other financial organizations.

In 2007- 2008 academic year, 40 students were enrolled for two-year program, including 30 students trained free of charge (75%).

33 university students passed internships at the divisions of the National Bank's head office, including 19 students of the Magistrates.

In order to increase the employees' performance, to achieve their full business potential, to form wholesome psychological climate, and to obtain information on interests and demands of the National Bank's employees, psychological and sociological research was conducted, and the results of the research were submitted to the National Bank's top management and managers of the concerned divisions.

Employees' stimulation, wage and social payments.

In 2007 as compared with 2006 the National Bank's actual costs on wage fund subject to social payments, personnel insurance, social tax and social allocations grew by 40.3%, which is caused by the growing wage of the National Bank's employees from January 1, 2007 through July 1, 2007.

As for the National Bank's joint stock companies, the relevant costs grew by 31,2% because the number personnel increased (Appendix 1 to section X subsection 10.2, table 10.2.2).

In 2007 as compared with 2006, the monthly average salary of a National Bank's employee grew by 31.1%.

The monthly average salary of one employee of the National Bank's joint stock company grew by 38.0%.

The National Bank continued to insure its employees.

2,428 employees consumed the services set forth with health insurance contracts (from March 5, 2007 through December 31, 2007) for the total amount of KZT 90.0 mln as compared with KZT 56.2 mln in 2006. In 2007, the employees consumed medical services 60.1% more, which is explained with higher readiness of the employees to consume insurance services.

In the period of validity of accident insurance contracts (from March 1, 2007 through December 31, 2007), 65 accidents happened, and in respect of the accidents, the insurance company made available insurance indemnities of KZT 12.2 mln to the National Bank's employees.

In 2007, the National Bank's employees were awarded with governmental decorations; 2 employees were awarded Kurmet Orders, 3 employees were awarded Yeren Enbegi Ushin Medals, and 4 employees were awarded the honorary certificates of the Republic of Kazakhstan according to RoK Presidential Decree No. 485 dated December 7, 2007.

In addition, 39 employees of the National Bank were given 'Honoured Employee of the National Bank of the Republic of Kazakhstan' badge, and 44 employees were given the Certificate of Gratuity from the National Bank's Chairman.

In order to ensure social protection of the most ‘vulnerable’ people, and to take care of elder people, in 2007, the National Bank provided social support to 960 former employees of the National Bank’s, which is 38.8% of the current staff at the end of the reporting period. In 2007 the National Bank provided beneficent help of KZT 36.6 mln.

In addition, in 2007 the National Bank provided and served loans for implementation of LPO BIS ‘T24’ at the National Bank.

10.3. Information technologies

Design and research. The design and research activities were intended to ensure further development of and to increase informatization of the National Bank. In 2007 the design activities were carried out under 31 projects. In 2007 25 projects were completed, and 3 projects will be continued in 2008, while 3 projects were cancelled.

The design activities were carried out on the following directions:

- 1) Implementation of new technologies and subsystems:
 - development of automated information subsystem (AISS);
 - Electronic Archives (full-scale project);
 - implementing SMS server;
 - purchasing and implementing the *POMS AI Manager* system;
 - implementing electronic workflow system at the head office and the branches;
 - implementing *AISS Monitoring of contract fulfillment* at the National Bank’s branches;
 - purchasing and implementing software for asset management and analysis, and risk management;
 - connecting the National Bank to electronic workflow system of state bodies;
- 2) Updating *AISS Collecting and processing data on balance of payments* to centralize databases and to ensure reliability and security;
- 3) Updating existing AISS to ensure of staged translation of reference books and outgoing forms (AISS Human Resources Management, AISS Management of Inter-bank Money Transfer System, AISS Recordkeeping of refined and unrefined precious metals, gems and precious metal or gem items in TsKOandKhZ, AISS Clearing system real-time monitoring) and interfaces into official language (AISS Electronic Auction);
- 4) Updating AISS in connection with amending laws and consummating new normative legal acts (AISS Collection and analysis of export and import currency control in the Republic of Kazakhstan, AISS EDOB);
- 5) Updating AISS to change and to improve functional (AISS Monitoring of enterprises of real sector of economy, AISS Human Resources Management, AISS Collecting and processing data on balance of payments, AISS EDOB, Automated Information System (AIS) Cubage-3C);
- 6) Updating AISS start to use code table supporting Kazakh language based on National Standard ST RK 1048-2002 (AISS Clearing system real-time monitoring, AIS Management of Inter-Bank Money Transfer System).

According to project ‘Electronic Government of the Republic of Kazakhstan’ the following measures were taken: agreeing on draft Program of development of ‘Electronic Government of the Republic of Kazakhstan’ from 2008 through 2010, placing of information on website of Electronic Government, agreeing on draft Conception of development of Kazakhstan Internet Zone presented with RoK Agency on informatization and communication.

While the National Bank was supporting domestic bank’ solvency, the National Bank considered and implemented the system of control of balances of banks’ correspondent and currency accounts when performing of currency operations.

Development and standardization of information technologies. In 2007, the National Bank’s normative legal acts on information technologies were developed. The draft Strategy of development of information technologies at the National Bank of the Republic of Kazakhstan from 2008 through 2010 was elaborated.

According to Contract No. 418NB dated October 23, 2007, *TUV NORD Ukraine* company carried out supervising audit of the National Bank’s Quality Management System (hereinafter referred to as

QMS). As carrying out the audit, the body on certification TUV NORD Cert GmbH & Co KG, the National Bank's ISO 9001:2000 certificate (No. 78 100 7779 dated October 14, 2005) was prolonged for one year. The results of supervising audit of QMS are used with the National Bank to assess quality of information services provided in the National Bank.

Maintenance and support of existing information systems. The National Bank maintained and administered 36 goals and sub-systems of integrated automated information systems used in the National Bank's divisions and branches. The financial year was finished without any failures and reproofs from users. The consulting and practical assistance were provided, and the reports were elaborated and modified to improve users' activities.

In order to bring AIS *Cubage-3C* in conformity with the National Bank's accounting policy adopted in 2007:

- module *Securities* has new variants of transition to new class of securities, and new accounting operations for securities on new balance accounts. The most admissible and optimal solutions were selected and implemented;

- the results revaluation of accounts (in foreign currency and precious metals) on capital accounts are tested and automatically displayed.

Administration and operation of existing information systems. Servers, active equipment of structured cable network, databases and mailing systems are kept in working condition, and a number of applications of computer hall were resolved and issued. Simultaneously, the quality of administration was improved, and increasing needs of users of the National Bank's information systems were satisfied according to the current condition of information technologies, and all defects of reliability, efficiency and security were eliminated.

The existing information systems were backed-up and operated. The Reserve Center of Calculations of the National Bank which is territorially remote from the main processing center was operated. The most important information sub-systems were backed-up in real-time mode, according to the technological procedure set forth with the National Bank's normative legal documents.

Improving technical infrastructure. The computer equipment was maintained and supported, and computers and communication facilities of the National Bank's head office divisions and branches were repaired.

As of the end of 2007, 3,284 computer units were operated and maintained, while in 2006 there were 3,010 units, including: 116 servers, 2,107 personal computers, 142 laptops, 772 laser printers, 28 Genicom speed printers, and 119 scanners. In addition, it was communication facilities: 20 automated telephone stations, and 151 facsimile facilities.

The National Bank's head office and branches took any obsolete and outdated personal computers out of service because they were replaced with new ones.

The technical facilities were repaired by within guarantee periods under contracts with suppliers and after expiration of guarantee periods by third party organizations through requesting price offers.

10.4. Internal audit

In accordance with the Plan of audits to be performed in 2007 approved by the Board's Resolution No. 135 dated December, 26, 2006, 30 audits were performed in the reporting period. In addition, three non-scheduled audits were performed at the instructions of the National Bank's management. The audits performed in the reporting period showed that the National Bank's divisions have well performed their functions and achieved the goals. According to the audits performed, 104 recommendations were submitted to the entities audited to improve their internal control and risk management system, and 28 recommendations were submitted to improve the National Bank's normative legal acts.

In the reporting period, the relevant methodology was brought in conformity with the International Professional Standards of Internal Audit. In this regard an independent assessment of the National Bank's internal audit system was started. This stage is a preparatory stage to perform the external assessment of internal audit which is planned to take place in 2008.

As concerns the National Bank's risk management system, business process 'Cash circulation in the Republic of Kazakhstan' is described. In order to ensure effective functioning of integrated risk

management system, the risks of the National Bank's organizations and joint stock companies where the National Bank holds fifty or more per cent share was started to be assessed.

In order to form the service quality control system the National Bank elaborated and approved the Register of Services provided by the National Bank to physical persons and legal entities. These services require to be standardized. Currently, the in-house service standards and regulations are being prepared.

10.5. Financial and economic activities

In 2007, the National Bank obtained net income of KZT 37,245.6 mln, while in 2006 its net income amounted to KZT 29,505.2 mln (Appendix 1 to section X subsection 10.5, table 10.5.1).

In the reporting period the National Bank's income amounted to KZT 88,270.1 mln, and it grew by KZT 28,792.2 mln (48.4%), while expenses achieved KZT 51,024.5 mln, and grew by KZT 21,051.8 mln (70.2%).

The profit of the National Bank's subsidiaries amounted to KZT 3,236.7 mln (Republican State Enterprises' incomes amounted to KZT 1,452.1 mln, JSC's incomes amounted to KZT 1,784.6 mln).

In 2007 the monetary operations in domestic and international markets gave the net income amounted to KZT 48,778.6 mln, which grew by KZT 11,244.8 mln (30.0%) (Appendix 1 to section X subsection 10.5, table 10.5.2).

The net incomes on *international market* operations amounted to KZT 87,077.7 mln, and they grew by KZT 28,424.2 mln (48.5%) because currency portfolio net incomes grew by KZT 28,563.9 mln (48.7%).

The National Bank's gold and foreign currency assets are managed as follows:

- *gold portfolio*: result fell by KZT 107.5 mln (3.7 times), and net expenditures amounted to 148.0 KZT mln;

- *currency portfolio*: net incomes amounted to KZT 87,260.4 mln, and grew by KZT 28,563.9 mln (48.7%), while net expenses on external management amounted to KZT 72.2 mln, and fell by KZT 648.8 mln (112.5%), and net incomes on internal management grew by KZT 29,212.7 mln (50.3%) and amounted to KZT 87,332.6 mln.

The net expenditures on operations in the *domestic market* grew by KZT 17,430.4 mln (81.3%) and amounted to 38,864.6 KZT mln.

At the same time, the net expenditures on government bond operations grew by KZT 22,618.8 mln (or 3.5 times) which is caused by prolongation of circulation term of government bonds, and in addition, in the first half of the year, the volume of issuance grew from KZT 100.0 bln to KZT 200.0 bln.

The expenditures on the Government's deposits fell by KZT 803.3 mln (73.3%) because the relevant interest rate fell to 0.25%, and because the volume of deposits fell as well.

The volume of expenditures on operations in the internal financial system dropped to KZT 6,938.5 mln (38.7%), because the volume of attraction of banks' deposits in the National Bank dropped.

In the reporting period the reserves on loans issued to banks and physical persons were formed and cancelled, and therefore, net expenditures amounted to KZT 1.4 mln.

In 2007 the incomes **on non-monetary activities** amounted to KZT 626.9 mln, and grew by KZT 117.0 mln (22.9%), while expenditures amounted to KZT 12,159.9 mln, and included the expenditures on financing Financial Supervision Agency of KZT 2,087.2 mln, and they grew by KZT 3,621.4 mln (42.4%). As a result, the net expenditures amounted to KZT 11,533.0 mln, and grew by KZT 3,504.3 mln (43.6%) (Appendix 2 to section X subsection 10.5, table 10.5.3).

The growth of expenses is mainly caused by growth of wage fund, personnel insurance costs, and training and re-training costs; expenditures of financing of FSA; contingencies (because the National Bank's shares in National Processing Center JSC was transferred to the Committee for State Assets and Privatization of the Ministry of Finance on gratuitous basis for further payment for shares in Samgau Holding JSC according to Resolution No. 375 of the RoK Government dated May 10, 2007 'On measures of implementation of RoK Presidential Decree No. 311 dated April 6, 2007 'On measures of further scientific and technological development of the Republic of Kazakhstan'.

The National Bank's **capital expenditures** amounted to KZT 23,578.8 mln, and grew by KZT 22,942.4 mln (37.0 times), mainly, because authorized capitals of the National Bank's organizations were increased according to resolutions of the National Bank's Board, for example, authorized capital of

Kazakhstan Fund of Guaranteeing Deposits JSC was increased by KZT 15,000.0 mln (Appendix 3 to section X subsection 10.5, table 10.5.4).

The National Bank's organization

In 2007 the incomes of the National Bank's republican state enterprises from sale of products (services, works) amounted to KZT 10,209.2 mln, while their production (services, works) expenditures amounted to KZT 8,074.9 mln. The enterprises' net income paying corporate income tax amounted to KZT 1,452.1 mln.

Joint-Stock Companies where the National Bank is a founder

In 2007 the joint-stock companies' incomes amounted to KZT 4,185.2 mln, while their expenditures amounted to KZT 1,817.5 mln. Their net income after paying corporate income tax amounted to KZT 1,784.6 mln (Appendix 4 to section X subsection 10.5).

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ATTACHMENT 4 TO SECTION X SUB-SECTION 10.592

Figure 1.1.1

Monthly average wage for basic economy industries in 2007

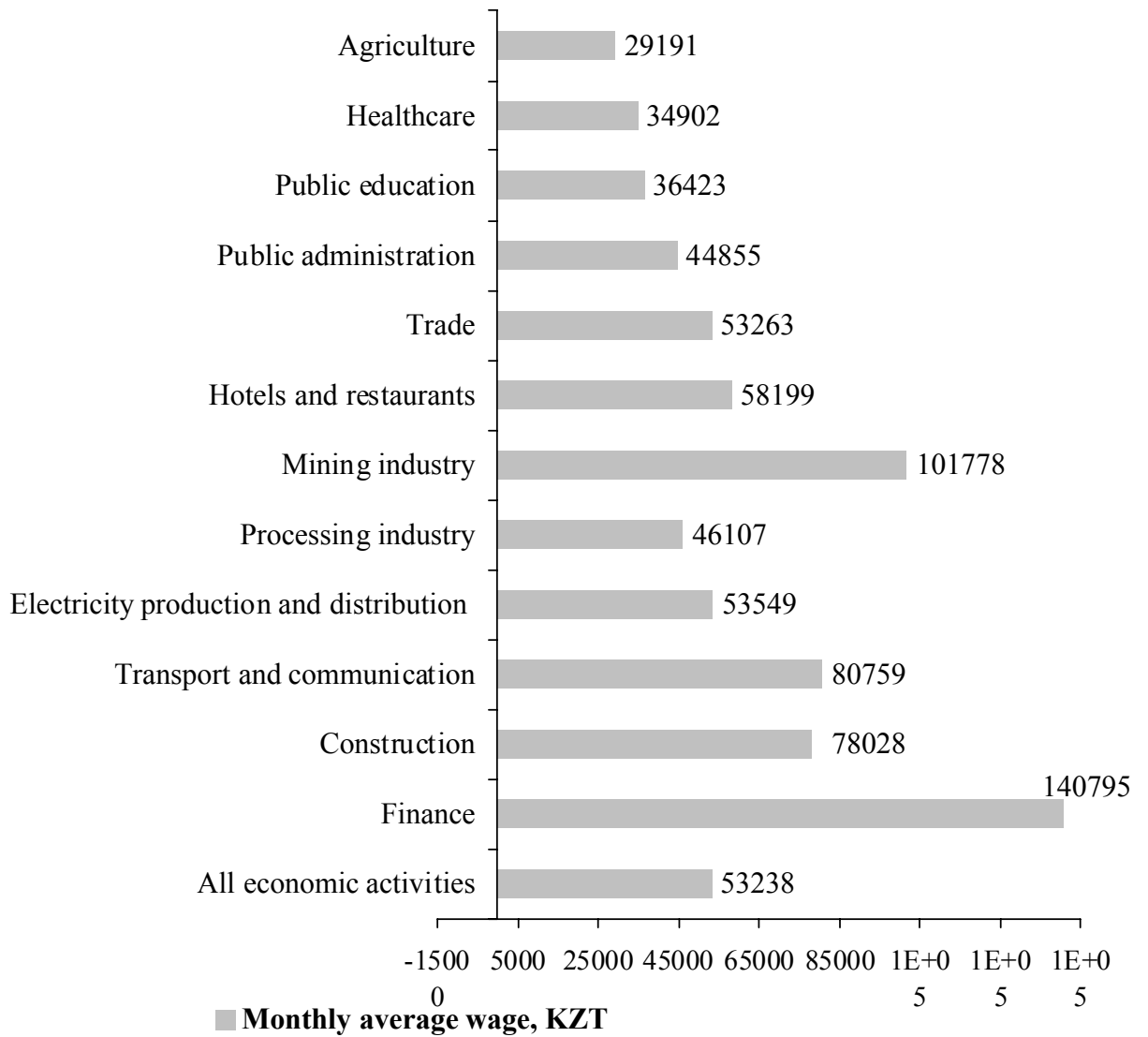


Figure 1.2.1

Market demand for finished product of enterprises

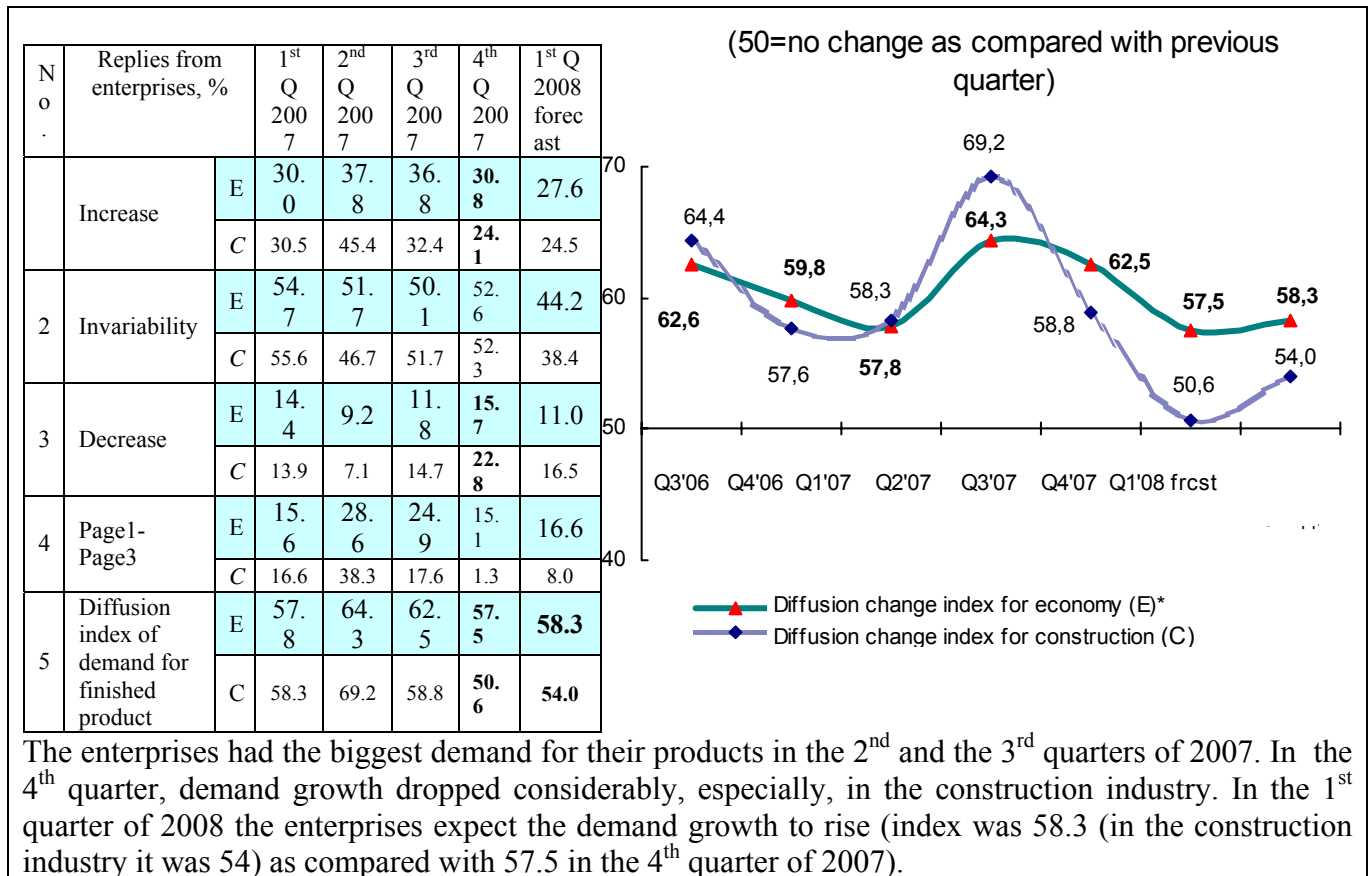
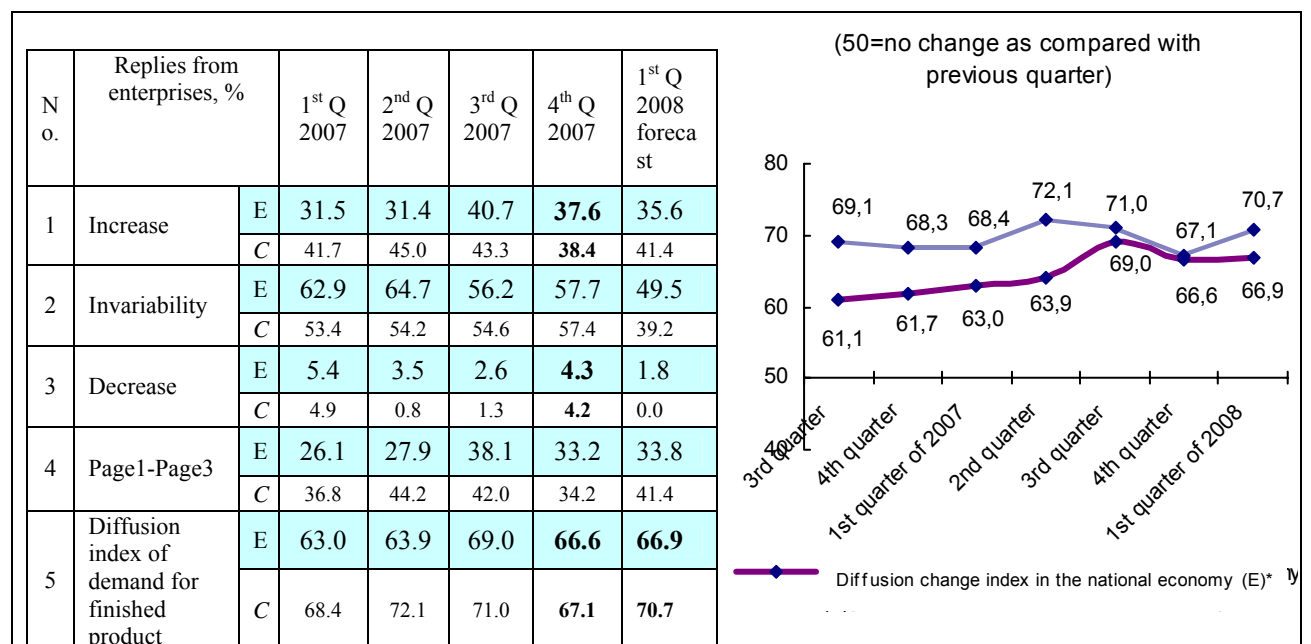


Figure 1.2.2

Price change with finished product of enterprises



In early 2007 the index rose (from 63 in the 1st quarter of 2007 to 69 in the 3rd quarter of 2007), and in the 4th quarter it slightly fell (to 66.6). No change is expected in the national economy in the 1st quarter of 2008. Meanwhile, the construction enterprises expect prices to rise: index rose to 70.7.

Figure 1.2.3

Price change for raw stuffs and materials

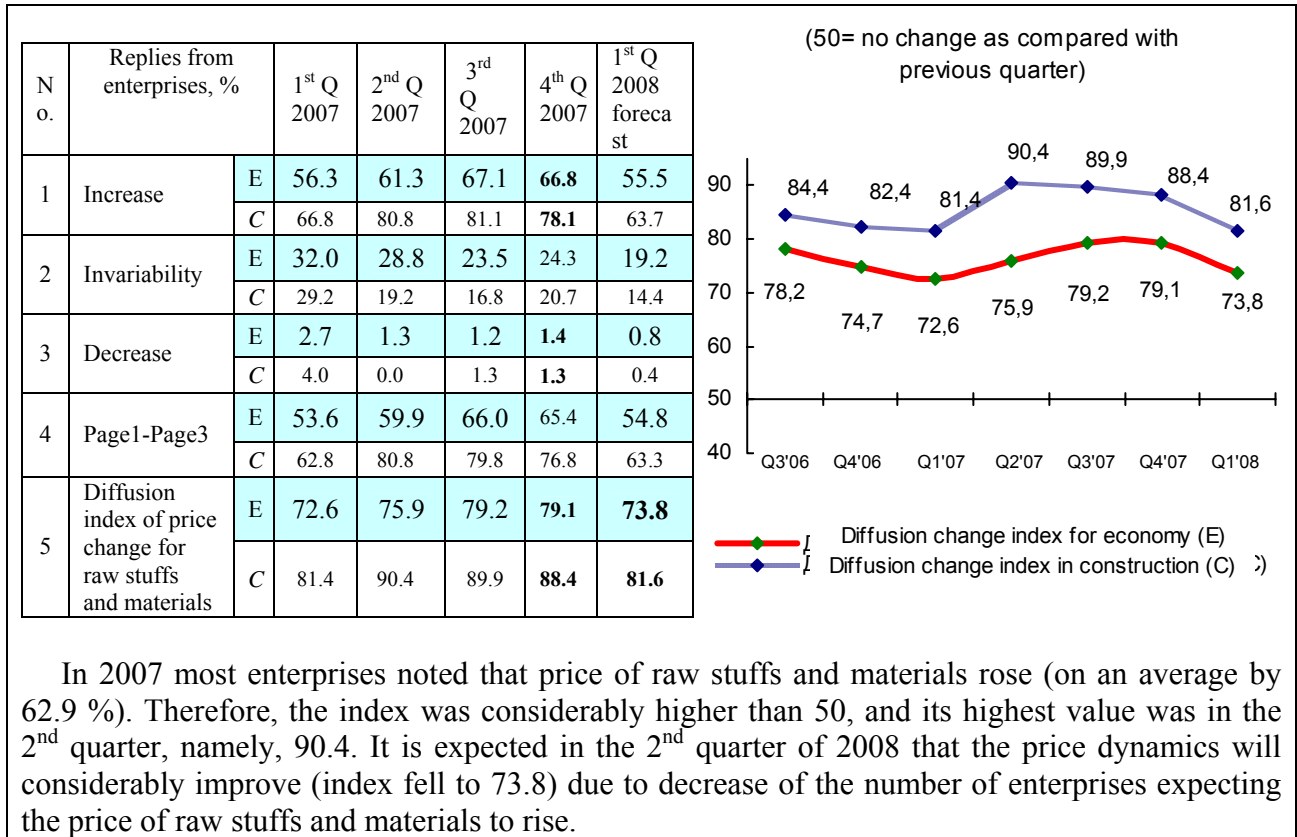
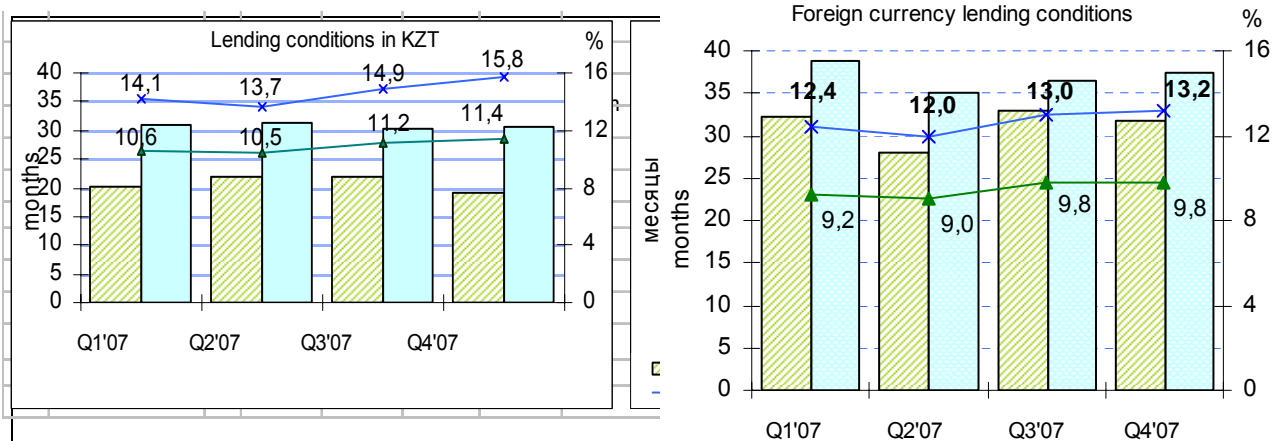


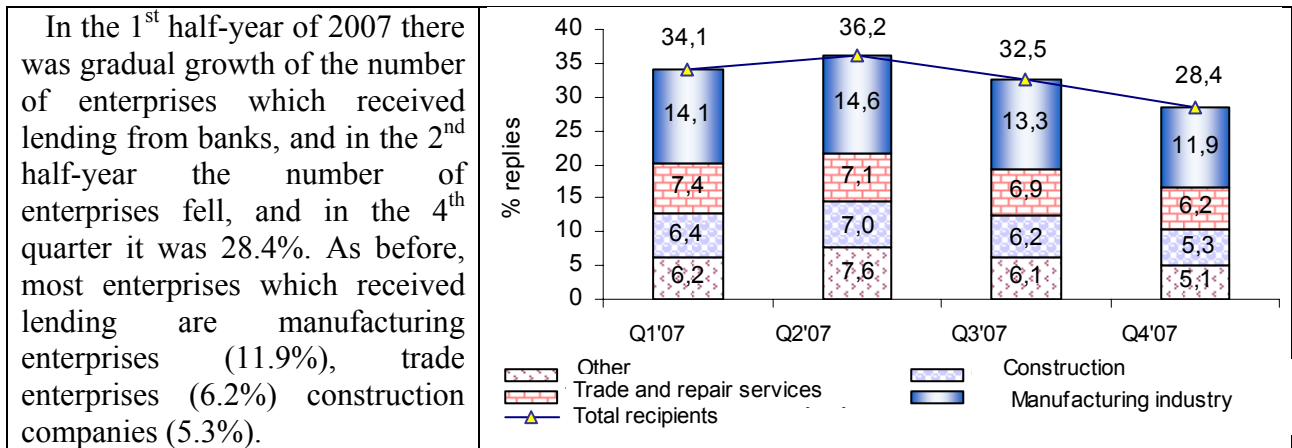
Figure 1.2.4

Lending conditions



In the 2nd half-year of 2007, lending conditions for real economy sector became harder: lending interest rate rose (15.8% for KZT and 13.2% for foreign currencies) and lending terms became shorter (19 months for KZT and 32 months for foreign currencies).

Bank lending



***Methodological comment to diagrams 1.2.1, 1.2.2, 1.2.3, 1.2.4, 1.2.5:**

The indicators on the diagrams are represented with the following calculated data: percentage ratio between groups of replies from enterprises, difference between the number of positive and negative replies, etc. In addition, the diagrams show so-called ‘diffusion index’ (index) which is a sum of positive replies and half replies ‘no change’. This index is the generalized indicator describing the dynamics of the indicator being considered. At the same time, if it is higher than 50, it means that change is positive, and if it is lower than 50, it means that change is negative (according to Moscow People’s Bank, England).

Attachment 1 to section I sub-section 1.4

Balance of Payments of the Republic of Kazakhstan: analytic representation

US\$ million

1	2005	2006	2007	2007			
				I	II	III	IV
2	3	4	5	6	7	8	
A. Current report	-1,055.8	-1,914.5	-7,183.7	-420.6	-1,950.6	-2,877.4	-1,935.1
Trade balance	10,321.8	14,641.7	15,140.7	3,643.3	3,451.2	3,103.7	4,942.4
Export	28,300.6	38,762.1	48,349.1	10,168.4	11,902.7	12,147.8	14,130.2
Import	-17,978.8	-24,120.4	-33,208.4	-6,525.1	-8,451.6	-9,044.1	-9,187.7
Service balance	-5,267.3	-5,912.0	-7,970.5	-13,16.1	-1,919.8	-2,424.6	-2,309.9
Export	2,228.4	2,807.6	3,552.1	715.8	879.8	967.1	989.3
Import	-7,495.7	-8,719.6	-11,522.6	-2,032.0	-2,799.6	-3,391.8	-3,299.2
Compensation of employee balance	-728.4	-951.63	-1,196.8	-251.8	-282.7	-304.5	-357.8
Investment income balance	-4,968.5	-8,485.6	-10,947.5	-2,104.4	-2,668.1	-2,487.3	-3,687.7
Incomes receivable	674.1	1,420.0	3,352.6	659.9	1,015.2	860.2	817.2
Interest on reserves and assets of National Fund	410.0	822.3	1,461.1	347.1	402.5	354.3	357.2
Incomes on direct investments abroad, net	-162.4	-193.6	28.7	-60.2	136.0	-5.7	-41.4
Other investment incomes	426.5	791.2	1,862.7	373.0	476.7	511.6	501.4
Income payable	-5,642.6	-9,905.6	-14,300.1	-2764.3	-3,683.4	-3,347.6	-4504.9
Incomes on direct investments in Kazakhstan, net	-4,633.1	-7,639.5	-10,282.6	-1,917.9	-2,739.8	-2,244.7	-3,380.3
Interest on liabilities	-984.5	-2,149.8	-3,917.1	-845.9	-932.4	-1,043.0	-1,095.8
Dividend on portfolio investments	-25.1	-116.3	-100.4	-0.5	-11.2	-59.9	-28.8
Current transfers	-413.5	-1,207.4	-2,209.6	-391.6	-531.2	-764.7	-522.1
B. Capital and Financial Account	912.0	16,093.1	7,384.4	2,906.8	4,795.5	364.0	-682.0
Capital account balance	14.0	32.7	-37.5	5.6	2.1	-7.1	-38.2
Financial report	898.0	16,060.4	7,421.9	2,901.2	4,793.4	371.1	-643.7
Direct investments	2,117.1	6,611.0	7,098.8	1,797.1	334.5	1,503.4	3,463.8
Direct investments abroad	145.9	387.4	-3,160.6	-563.0	-1,593.7	-404.4	-599.5
Assets	-199.8	-848.7	-2,347.9	-597.2	-748.6	-435.1	-566.9
Liabilities	345.7	1236.1	-812.8	34.2	-845.1	30.7	-32.6
Direct investments in Kazakhstan	1,971.2	6,223.6	10,259.4	2,360.1	1,928.2	1,907.8	4,063.4
Assets	-229.2	-96.9	-1,575.6	123.8	-393.1	-845.1	-461.2
Liabilities	2,200.4	6,320.5	11,835.0	2,236.3	2,321.3	2,752.9	4,524.6
Portfolio investments	-3,952.7	-4,501.4	-4,601.5	-912.1	1,104.9	-1,990.7	-2,803.5
Assets	-5,157.1	-9,176.7	-4,162.4	-1,449.3	-667.5	-778.5	-1,267.1
Central bank and general government	-2,970.9	-5,847.6	-6,211.9	-1,777.8	-1,547.2	-1,246.4	-1,640.5
Banks	-1,762.5	-1,883.0	1,875.5	609.3	-94.3	735.0	625.5
Other sectors	-423.7	-1,446.1	173.9	-280.8	974.0	-267.1	-252.2
Liabilities	1,204.4	4,675.4	-439.0	537.2	1,772.4	-1,212.3	-1,536.4
Central bank and general government	39.6	773.8	-2,111.4	84.4	808.9	-2,134.9	-869.8
Banks	1,194.2	2,948.3	642.0	303.8	471.3	662.5	-795.6
Other sectors	-29.4	953.2	1,030.4	149.0	492.3	260.1	129.0
Financial derivatives (net)	-112.6	-67.8	-358.9	-177.7	177.6	-326.8	-32.1
Medium and long-term loans and credits	2,203.8	14,491.9	11,295.6	4,904.4	3,887.6	3,225.3	-721.7

Continuation of Attachment 1 to section I sub-section 1.4

1	2	3	4	5	6	7	8
Assets	-641.2	-4,217.4	-4,771.6	-1,710.9	-2,046.4	-31.8	-982.6
Central bank and general government	0.0	-212.8	1.2	0.3	0.3	0.3	0.3
Banks	-550.4	-3,853.3	-3,751.3	-1,410.4	-1,701.6	152.1	-791.3
Other sectors	-90.8	-151.3	-1,021.6	-300.7	-345.0	-184.2	-191.7
Liabilities	2,845.0	18,709.3	16,067.2	6,615.2	5,934.0	3,257.1	260.9
Central bank and general government	-827.3	-0.5	-61.3	-105.9	28.9	-6.5	22.3
Banks	2,476.4	15,544.1	12,155.8	6,232.0	5,019.1	1,712.2	-807.4
Other sectors	1,195.9	3,165.7	3,972.7	489.2	886.0	1,551.4	1,046.1
Other short-term capital	642.5	-473.4	-6,012.0	-2,710.5	-711.2	-2,040.1	-550.2
Assets	-3,669.2	-3,804.7	-6,770.8	-1,230.3	-3,240.3	-138.1	-2,162.0
Liabilities	4,311.7	3,331.4	758.7	-1,480.2	2,529.1	-1,902.0	1,611.8
C. Errors and omissions	-1,800.0	-3,104.0	-3,251.8	-288.7	-2,007.0	-1,931.5	975.4
D. Overall balance	-1,943.8	11,074.6	-3,051.2	2,197.4	837.9	-4,444.9	-1,641.6
E. Financing	1,943.8	-11,074.6	3,051.2	-2,197.4	-837.9	4,444.9	1,641.6
Reserve assets	1,943.8	-11,074.6	3,051.2	-2,197.4	-837.9	4,444.9	1,641.6
IMF's credits	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Attachment 2 to section I sub-section 1.4

Main indicators of external sector of the Republic of Kazakhstan

	2004	2005	2006	2007
Current account balance (US\$ billion)	0.335	-1.056	-1.915	-7.184
- % of GDP	0.8	-1.8	-2.4	-6.9
Export of goods and services (US\$ billion for period)	22.6	30.5	41.6	51.9
- % of GDP	52.4	53.4	51.3	50.0
Import of goods and services (US\$ billion for period)	18.9	25.5	32.8	44.7
- % of GDP	43.9	44.6	40.5	43.1
Foreign direct investments net inflow (US\$ billion for period)	5.4	2.1	6.6	7.1
- % of GDP	12.6	3.7	8.2	6.8
Gross external debt (US\$ bln at the end of period)	32,713	43,429	73,996	96,369
Governmental debt and government guaranteed debt	3,133	2,175	3,125	2,099
Inter-company debt	16,675	19,228	25,511	29,904
External liabilities of bank	7,682	15,316	33,323	45,946
Other external liabilities	5,223	6,710	12,037	18,420
International reserves of NBK (US\$ bln at the end of period)	9,277	7,069	19,127	17,392
- in months of import of goods and services	5.9	3.3	7.0	4.7
National Reserve Fund (US\$ billion at the end of period)	5.1	8.1	14.1	21.0
Real effective exchange rate (per cent change of index as compared with December of the previous year)	6.1	6.2	0.6	10.3
Terms of Trade (per cent change of year average index)	16	21	9	-3

Attachment 3 to section I sub-section 1.4

Main indicators of the external debt of the Republic of Kazakhstan

Indicator	2004	2005	2006	2007	Indebtedness (MBRR)	
					Low	Moderate
A. Key Debt Indicators						
1. Gross external debt (at the end of period)	32,713.2	43,428.5	73,996.2	96,369.3		
<i>of which inter-company indebtedness</i>	<i>16,675.0</i>	<i>19,228.1</i>	<i>25,510.8</i>	<i>29,904.1</i>		
2. Gross external debt excluding inter-company indebtedness (at the end of period)	16,038.2	24,200.5	48,485.5	66,465.3		
3. Long-term debt serve	8,185.3	11,053.8	11,053.8	25,427.1		
Excluding debt service of inter-company indebtedness	3,519.5	5,495.1	5,715.1	18,190.3		
4. Export of goods and non-factor services (EGNFS)*	22,612.3	30,529.0	41,569.7	51,901.2		
B. Debt ratios						
1. Gross external debt per capita (US\$)	2,170.1	2,853.8	4,806.6	6,191.2		
excluding inter-company indebtedness	1,063.9	1,590.3	3,149.5	4,270.0		
2. Ratio of gross external debt to GDP (%)	75.7	76	91.3	92.8	<48	48-80
excluding inter-company indebtedness	37.1	42.4	59.9	64.0		
3. Ratio of gross external debt to EGS (%)	144.7	142.3	178.0	185.7	<132	132-220
excluding inter-company indebtedness	70.9	79.3	116.6	128.1		
4. Ratio of debt service and serving disbursements to EGNFS (%)	36.2	36.2	28.2	49.0	<18	18-30
excluding inter-company indebtedness	15.6	18.0	13.1	35.0		
5. Ratio of interest payments to EGNFS (%)	4.2	5.6	6.5	10.3	<12	12-20
6. Ratio of long-term debt to gross external debt	87.9	81.2	83.0	87.8		

For information:

Population (thousand people)

2004 – 15,075; 2005 – 15,218; 2006 – 15,395; 2007- 15,566

GDP (US\$ billion)

2004 – 43.2; 2005 – 57.1; 2006 – 81.0; 2007 – 103.8

	Indicators (US\$ mln)	Sum	
		01.01.07	01.01.08
1.	Gross gold and foreign exchange assets, total including:	19,127.051	17,392.450
1.1.	Monetary gold	1,376.243	1,852.526
1.2.	Hard currency assets and SDR	17,750.808	15,539.923
a)	Foreign currency cash (hard currency)	3.645	169.476
б)	Transferable deposits (hard currency)	6,175.733	5,420.260
в)	Other deposits (hard currency)	52.227	816.225
г)	Credits (hard currency)	309.524	1,250.200
д)	Securities except for shares (hard currency)	11,194.795	7,883.769
е)	Financial derivatives and other reports	4.162	0.000
2.	External liabilities (hard currency) including:	3.878	2.953
2.1.	Liabilities to International Financial Organizations	0.686	0.724
2.2.	Medium term loans	1.903	1.903
2.3.	Financial derivatives	0.001	0.001
2.4.	Other reports	1.287	0.326
3.	Net international reserves (1-2), total	19,123.174	17,389.496

Comparative table of excess profitability of gold and foreign exchange asset managers in 2006⁷
(profitability is calculated for own currency of every sub-portfolio)

US\$ mln

Asset manager	Market value	Portfolio profitability	Standard portfolio profitability	Excess profitability
Foreign exchange investment portfolio				
Total	5,799.30	10.95%	10.61%	0.34%
US\$ denominated sub-portfolio				
Total	2,605.54	7.81%	7.88%	-0.07%
National Bank	2,411.86	7.99%	7.88%	0.11%
Manager 1	193.68	5.64%	7.88%	-2.24%
Manager 2*		3.08%	5.08%	-2.00%
Euro denominated sub-portfolio				
National Bank	1,744.30	3.92%	3.67%	0.25%
British pound denominated sub-portfolio				
National Bank	570.51	7.59%	7.19%	0.40%
Australian dollar denominated sub-portfolio				
National Bank	308.64	4.56%	4.29%	0.26%
Japan yen denominated sub-portfolio				
National Bank	570.32	1.76%	1.83%	-0.07%
Absolute return portfolio				
Total	370.54	6.26%	5.44%	0.82%

*Agreement terminated on 28.09.07

⁷ without commission fee payable to asset managers

Cash flows in banks

Cash flows going through banks' cash offices	In 2007 (KZT million)	In 2006 (KZT million)	Change for period	
			(KZT million)	as %
Inflow to banks' cash offices:	9,689,060.33	6,430,906.43	3,258,153.90	50.7
From sale of goods, services and works	2,271,131.92	1,738,248.14	532,883.79	30.7
From public utility bill payments	136,622.58	109,762.13	26,860.46	24.5
From transport organizations	61,500.35	55,348.83	6,151.52	11.1
From communication organizations	80,867.79	78,830.78	2,037.01	2.6
From hotel, gambling and show businesses	8,015.40	7,046.85	968.55	13.7
From insurance organizations	4,766.25	4,116.35	649.90	15.8
From sale of foreign currency	1,741,408.78	1,236,271.66	505,137.12	40.9
To report of individuals' deposits	1,842,783.46	1,008,389.99	834,393.47	82.7
Mandatory and voluntary pension payments	5,939.75	4,962.10	977.64	19.7
Taxes, dues and customs fees	134,345.18	93,164.14	41,181.05	44.2
Repayment of loans	245,274.41	180,019.67	65,254.73	36.2
Withdrawn from ATMs	378,100.74	216,267.28	161,833.46	74.8
Other inflows	278,303.72	1,698,478.52	1,079,825.20	63.6
Outflow from banks' cash offices:	10,034,458.04	6,755,295.14	3,279,162.90	48.5
As payment for goods, services, works	1,635,090.48	1,276,305.78	358,784.70	28.1
As wage	350,458.57	302,122.79	48,335.79	16.0
As payment for agriculture products	82,631.50	91,553.54	-8,922.05	-9.7
To transport and communication organizations	634.73	457.63	177.10	38.7
To insurance companies	617.76	513.07	104.69	20.4
To purchase of foreign currency	522,477.70	411,668.56	110,809.13	26.9
From individuals' deposits	2,384,569.08	1,351,372.48	1,033,196.59	76.5
From loans to individuals and legal entities	318,253.41	232,394.40	85,859.01	36.9
As payment of pensions and allowances	288,070.64	271,574.63	16,496.00	6.1
As feeding of ATMs	1,575,093.66	978,710.08	596,383.59	60.9
Other outflows	2,876,560.51	1,838,622.17	1,037,938.34	56.5
Ratio of return of cash to banks' cash offices, %	96.6	95.2		

Figure 4.3.1

Specific weight of national currency deposits and foreign exchange deposits in the total volume of deposits

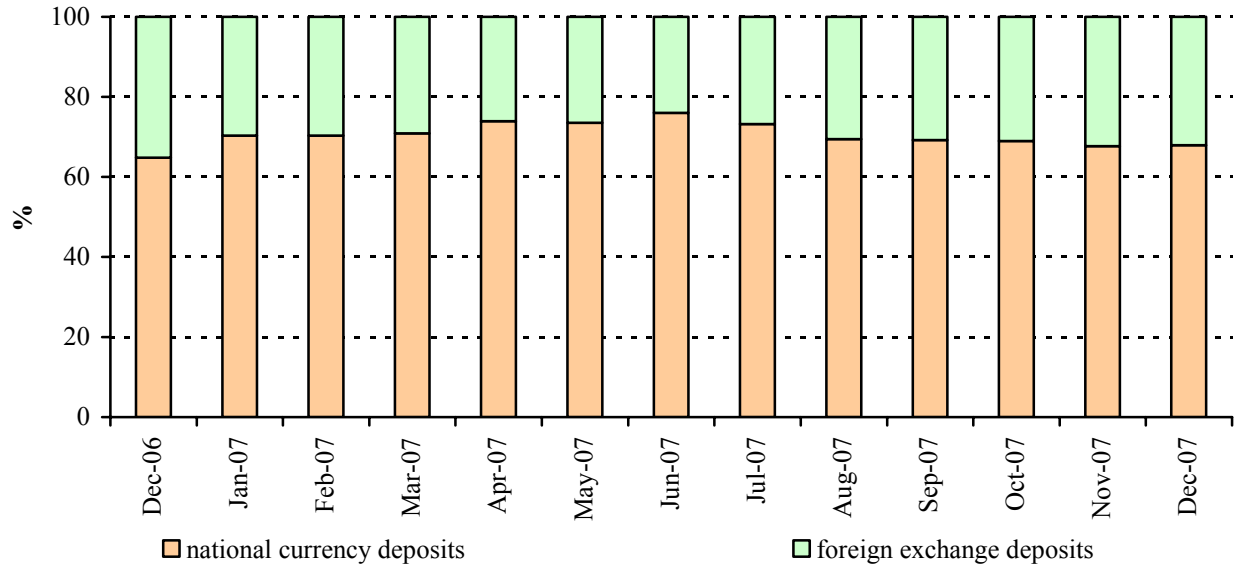


Figure 4.3.2

Dynamics of weighted average interest rate on individuals' fixed period deposits

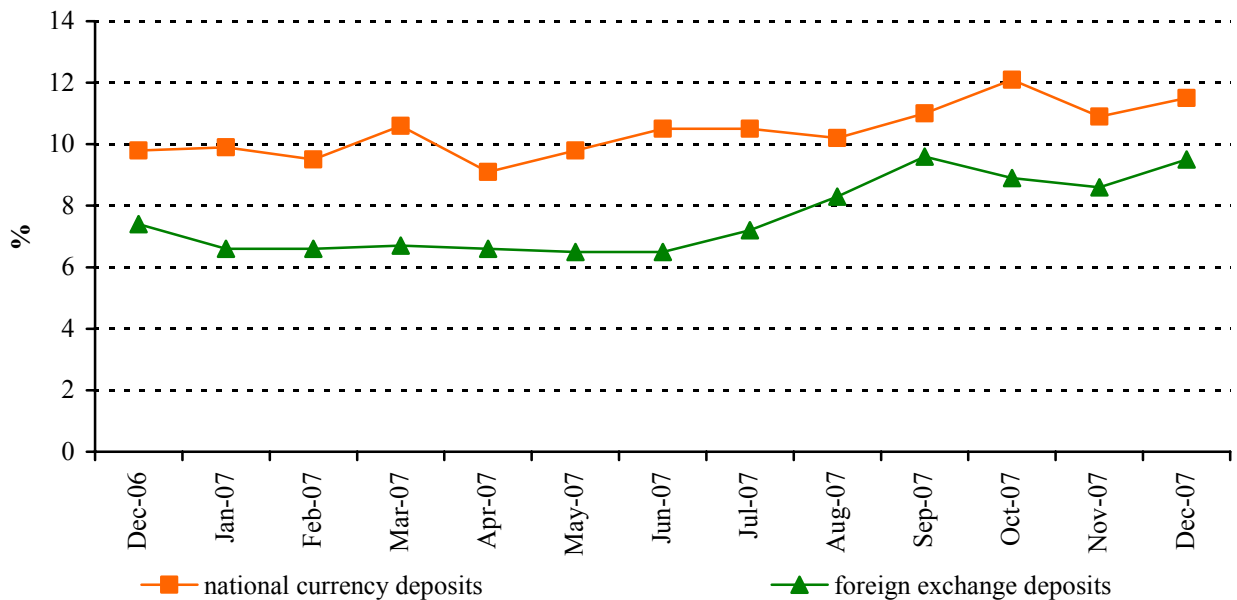


Figure 4.4.1

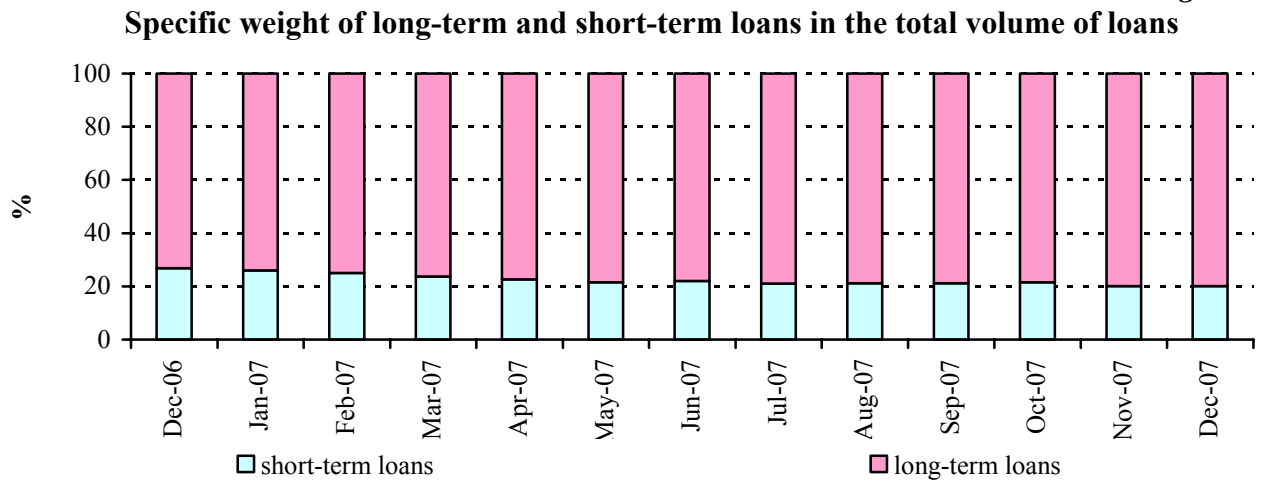


Figure 4.4.2

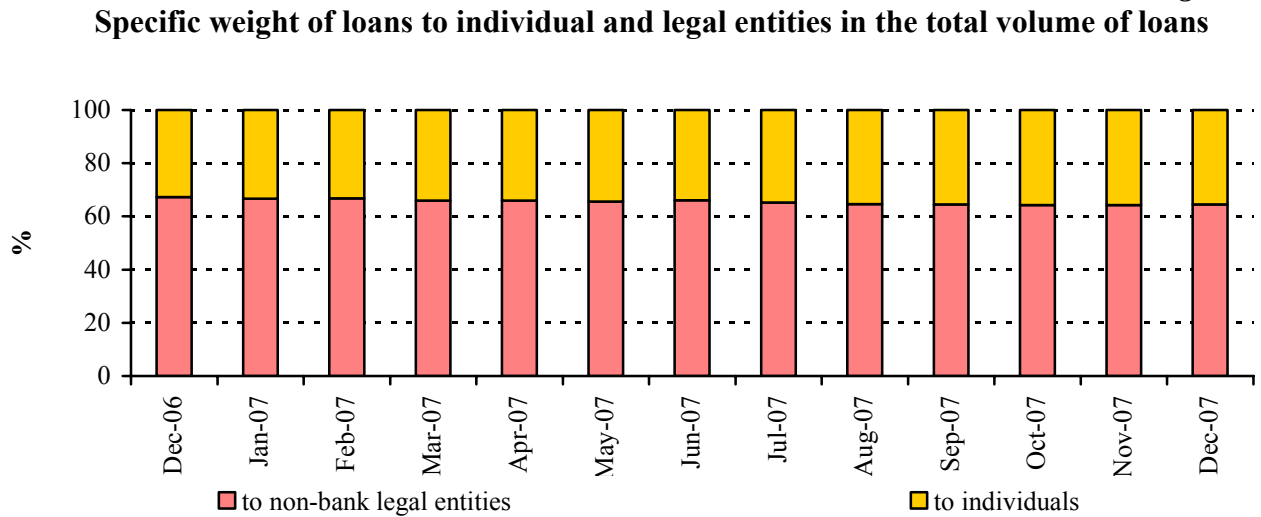


Figure 4.4.3

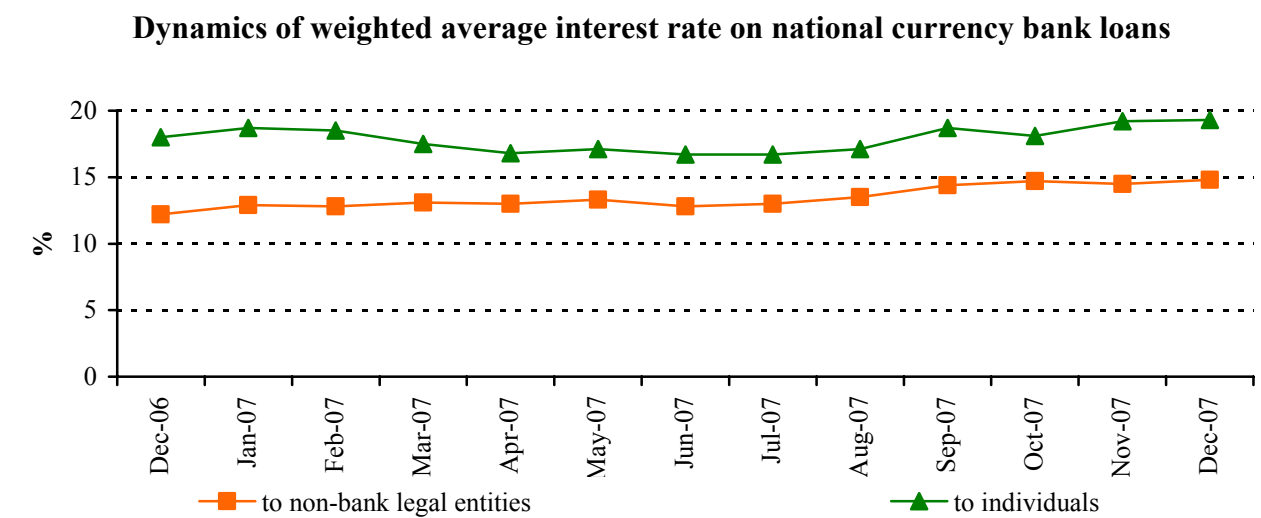


Figure 9.1.1

Profitability of National Reserve Fund since the beginning, US\$

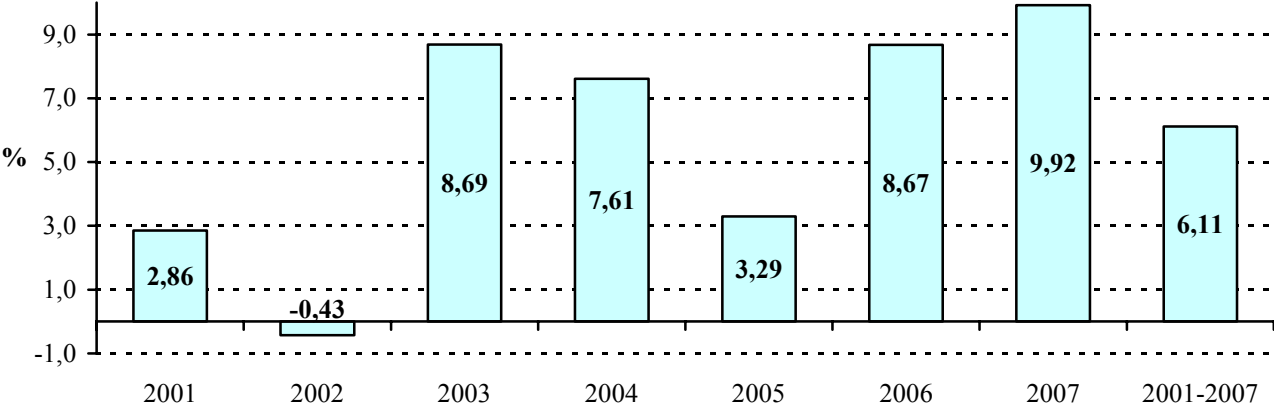


Figure 9.1.2

Profitability of Savings Portfolio in 2007

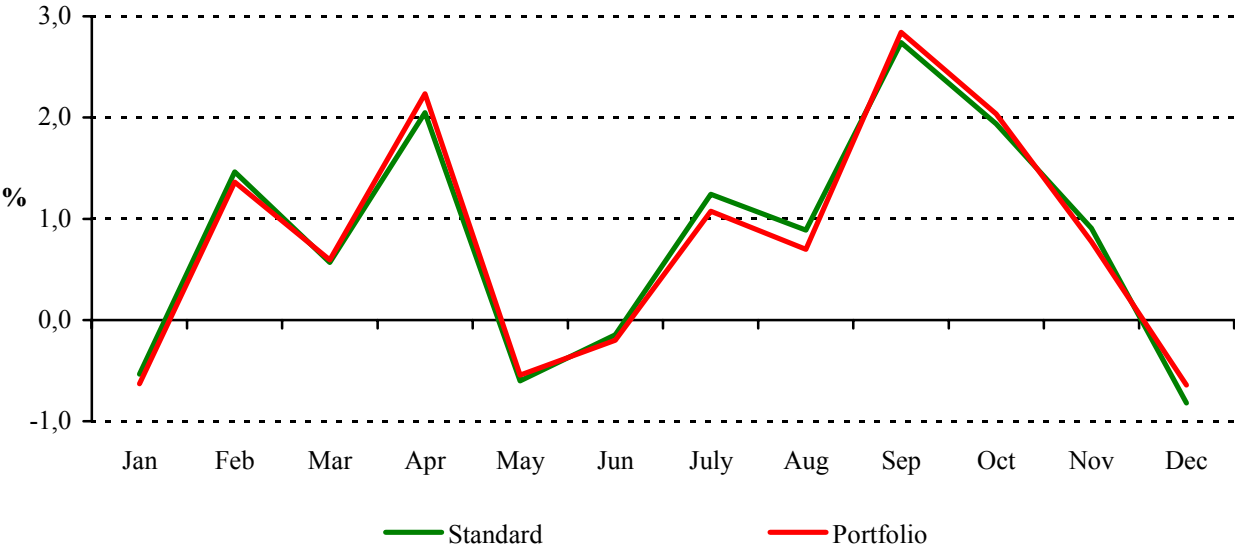


Figure 9.1.3

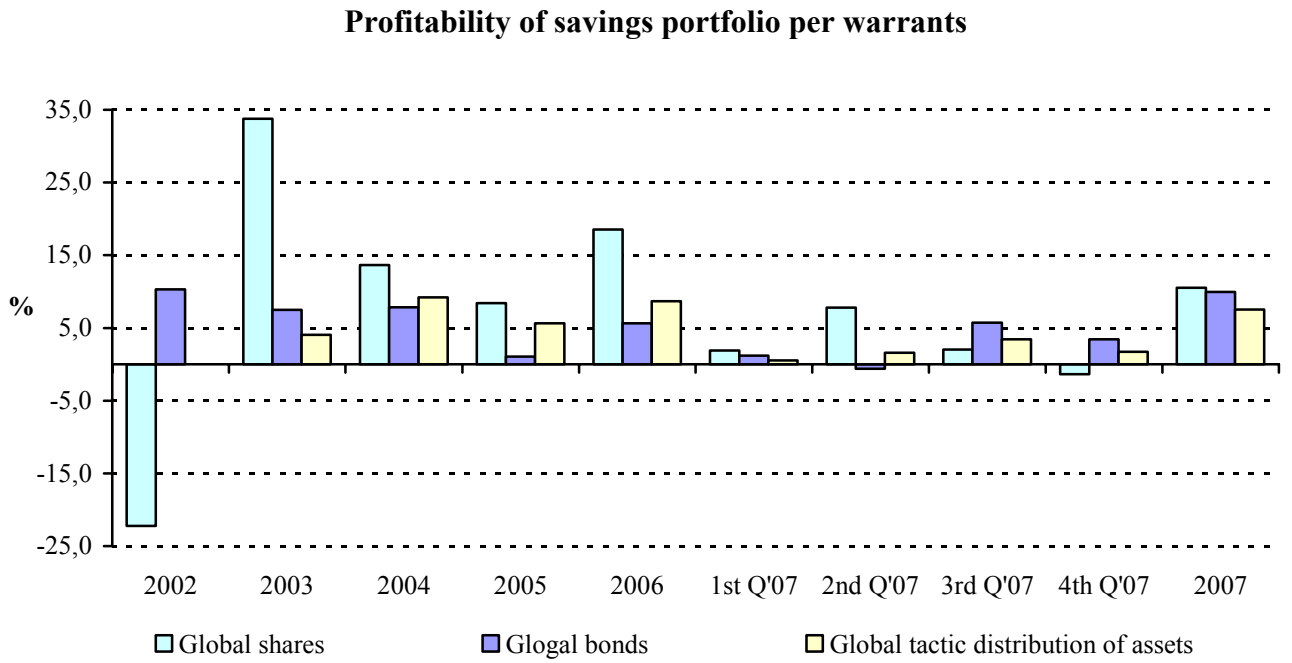


Figure 9.1.4

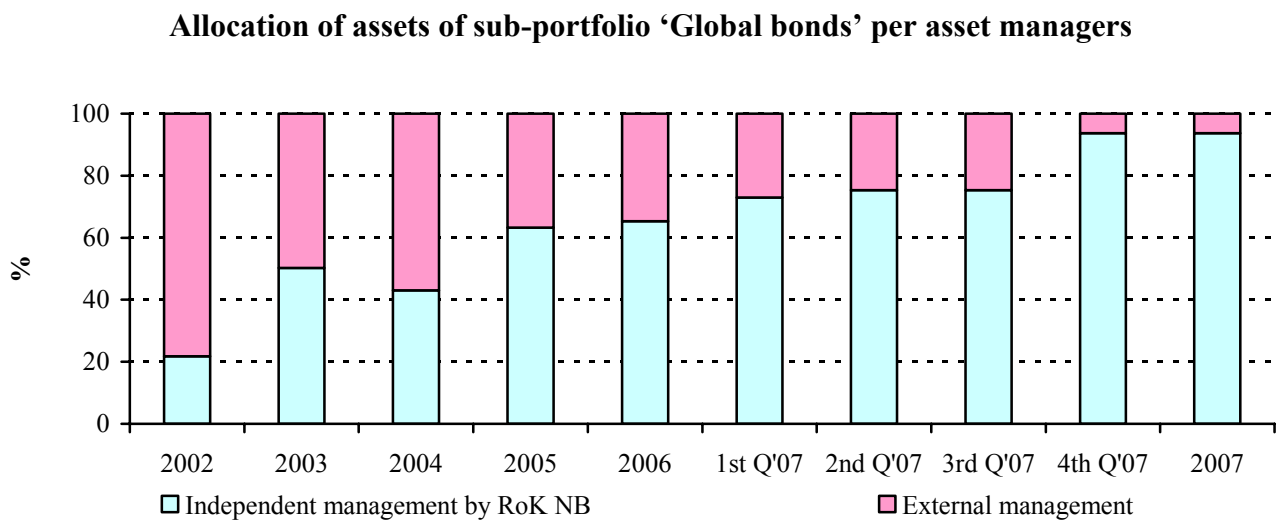


Table 9.1.1

Comparative table of profitability of sub-portfolio ‘Global bonds’ against standard portfolio

	Portfolio	Standard	Excess profitability
Independent management by RoK NB *	10.17	10.43	-0.26
External management	9.93	10.43	-0.50
Total sub-portfolio	9.96	10.43	-0.46

Table 9.1.2

Comparative table of excess profitability per savings portfolio managers in 2007⁸

US\$ million

Manager	Market value at the end of 2007	Portfolio profitability	Standard portfolio profitability	Excess profitability
Global fixed income mandate				
Manager 1	211,720,830	10.28%	10.43%	-0.15%
National Bank	11,674,148,466	10.17%	10.43%	-0.26%
Manager 3	570,145,425	9.26%	10.43%	-1.16%
Global equities				
Manager 7	983,158,145	13.15%	8.49%	4.65%
Manager 8	1,127,034,198	11.25%	8.49%	2.75%
Manager 9	1,100,610,895	10.70%	8.49%	2.20%
Manager 10	742,178,080	9.13%	8.49%	0.63%
Global tactic asset allocation				
Manager 12	584,832,319	8.29%	10.05%	-1.76%
Manager 13	259,271,414	1.25%	10.05%	-8.81%

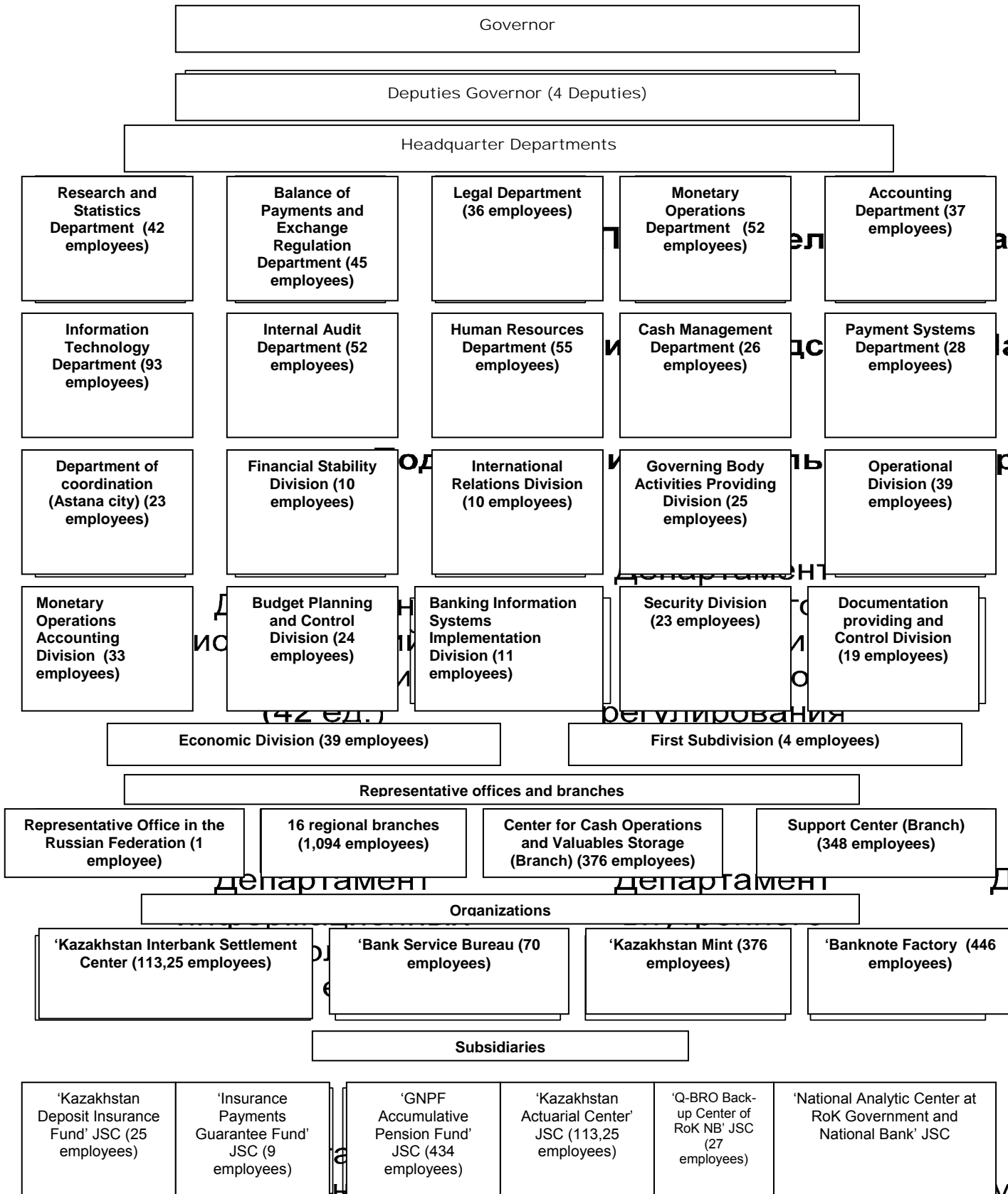
* Profitability is calculated without managers' commission fee.

Basic indicators for keeping records on the National Bank's customer service operations
(KZT million)

Customer	Total assets as of January 1, 2007	Total assets as of January 1, 2008	Total inflows in 2007	Total writing-off in 2007	RoK NB's income from services in 2007	Indemnified costs in 2007
Under trust management	76,363.1	151,640.2	114,219.4	38,942.3	16.1	16.2
‘KFDA’ JSC	12,645.0	24,250.7	23,877.1	12,271.4	2.0	2.6
‘KHC’ JSC	1,978.8	15,742.5	34,704.2	20,940.5	1.2	0.6
‘NPTs’ JSC	559.9	289.0	0.0	270.9	0.6	0.1
‘FAIP’ JSC	763.7	645.3	205.5	323.9	0.8	0.2
‘GSK’ JSC	7,536.0	6,955.2	110.1	690.9	1.9	2.2
‘IFK’ JSC	13,400.0	12,440.9	3,477.8	4,436.9	3.0	2.3
‘KFGIK’ JSC	7.0	0.0	0.0	7.0	0.0	0.0
‘SFSI’ JSC	39,076.0	90,920.7	51,844.7	0.0	6.1	8.1
‘KCIP’ RSE	396.7	395.9	0.0	0.8	0.5	0.1
Under custodial service	156,226.9	205,138.8			70.6	18.5
‘GNPF NPF’ JSC	154,226.9	205,138.8			68.7	17.7
‘BRK’ JSC	2,000.0	0.0			1.9	0.8
Under broker service	0.0	5,939.3			0.4	0.6
‘SAMRUK’ JSC	0.0	5,939.3			0.4	0.6
	0.0					
TOTAL:	232,590.0	362,718.3			87.1	35.3

Attachment 1 to section X sub-section 10.1

Organizational chart



By resolution No. 702 of the RoK Government dated September 5, 2007, National Analytic Center at the RoK Government and National Bank JSC was included in the List of organizations controlled by the RoK Prime Minister's Office.

Table 10.2.1

Number of personnel of the National Bank and JSCs

	Number of personnel at the end of reporting period				Indicator	
	as per staff list		as per list, employees		of turnover, %	
	2006	2007	2006	2007	2006	2007
Central Office	721	732	660	682	11.7	13.8
Branches	1,465	1,818	1,457	1,796	10.7	16.3
Total:	2,186	2,550	2,117	2,478	11	15.7
RoK NB's organizations (RSEs)	1,369	1,005	1,326	951	12.6	16
Total for RoK NB:	3,555	3,555	3,443	3,429	11.6	15.8
JSCs	354	505	320	396	23.5	24.3
Total:	3,909	4,060	3,763	3,825	13	40.1

Table 10.2.2

Costs of wage fund subject to taxes and average monthly wage

	Actual costs of wage fund subject to social payments, personnel insurance and social tax and social deductions, KZT million			Employee's average monthly wage, KZT		
	in 2006	in 2007	% ratio to 2006	in 2006	in 2007	% ratio to 2006
RoK NB	3,426.8	5,689.6	166.0	120,890	155,619	128.7
RoK NB's organizations (RSEs)	1,696.6	1,498.0	88.3	91,109	112,124	123.1
Total for RoK NB and RSEs:	5,123.4	7,187.6	140.3	109,167	143,165	131.1
JSCs	611.0	801.8	131.2	98,683	136,149	138.0
Total (RoK NB + RSEs + JSCs):	5,734.4	7,989.4	139.3	107,959	142,376	131.9

Attachment 1 to section X sub-section 10.5

Table 10.5.1.

Performance of the National Bank of the Republic of Kazakhstan*

KZT mln

	2006				2007				differences	
	RoK NB	RSE	JSC	Total	RoK NB	RSE	JSC	Total	(+/-)	(%)
Profits *	59,477.9	8,775.1	4,667.7	72,920.7	88,270.1	10,209.2	4,182.5	102,664.5	29,743.8	40.8
Costs *	29,972.7	6,723.5	1,631.8	38,328.0	51,024.5	8,074.9	1,817.5	60,916.9	22,588.9	58.9
Retained profit/(loss)	29,505.2	2,051.6	3,035.9	34,592.7	37,245.6	2,134.3	2367.7	41747.6	7,154.9	20.7
Corporate income tax		568.2	782.9	1,351.1		682.2	583.1	1,265.3	-85.8	-6.4
Balance of retained profit/(loss)	29,505.2	1,483.4	2,252.9	33,241.6	37,245.6	1,452.1	1,784.6	40,482.3	7,240.7	21.8

* - for RoK NB's monetary activities profits and costs are used on net basis

Table 10.5.2

National Bank's profits and costs on monetary activities*

KZT mln

Item No.	Parameter	Net result		Differences	
		2006	2007	(+/-)	(%)
1	International market	58,653.5	87,077.7	28,424.2	48.5
1.1	Management of gold and foreign exchange assets	58,656.0	87,112.4	28,456.4	48.5
1.1.1	Gold portfolio	-40.5	-148.0	-107.5	3.7 times
1.1.2	Foreign exchange portfolio	58,696.5	87,260.4	28,563.9	48.7
1.1.2.1	Under external management	576.6	-72.2	-648.8	-112.5
1.1.2.2	Under internal management	58,119.9	87,332.6	29,212.7	50.3
1.2	Others	-2.5	-34.7	-32.2	13.9 times
2	Inland market	-21,434.2	-38,864.6	-17,430.4	81.3
2.1	Operations with RoK Government	-1,096.5	-293.2	803.3	-73.3
2.2	Operations with Government Bonds	-9,012.7	-31,631.5	-22,618.8	3.5 times
2.3	Operations with inland financial system, non-financial organizations and individuals	-11,326.7	-6,938.5	4,388.2	-38.7
2.4	Forming and canceling reserves	1.7	-1.4	-3.1	-182.4
2.5	Others	0.0	0.0	0.0	0.0
3	Appreciation of gold and foreign exchange assets	314.5	565.5	251.0	79.8
	Result from monetary activities	37,533.8	48,778.6	11,244.8	30.0

* - for RoK NB's monetary activities profits and costs are used on net basis

National Bank's profits and costs on non-monetary activities

KZT mln

Item No.	Parameter	2006	2007	Differences	
				(+/-)	(%)
1	Total profits	509.9	626.9	117.0	22.9
1.1	Current profits	467.5	579.8	112.3	24.0
1.1.1	Indemnified costs	25.4	26.6	1.2	4.7
1.1.2	Profits from investment securities – capital invested (dividends)	209.7	96.4	-113.3	54.0
1.1.3	Other profits,	232.4	456.8	224.4	96.6
1.2	Contingent profits	42.4	47.1	4.7	11.1
2	Total costs	8,538.6	12,159.9	3,621.4	42.4
2.1	Current costs	8,428.3	11,334.4	2,906.1	34.5
2.1.1	For delivery and transportation of national currency cash	64.7	68.7	4.0	6.2
2.1.2	For commission fees on the National Bank's operations	0.8	1.5	0.7	87.5
2.1.3	For operations with fixed assets, intangible assets and inventory	1,304.9	1,393.3	88.5	6.8
2.1.4	Other costs	969.3	619.2	-350.1	36.1
2.1.5	Costs related to funding AFN	1,493.1	2,087.2	594.1	39.8
2.1.6	Administrative costs and personnel costs	4,595.4	7,164.5	2,569.1	55.9
2.2	Contingent costs and reserve formation costs	110.3	825.5	715.2	7.5 times
	Result of non-monetary activities	-8,028.7	-11,533.0	-3,504.3	43.5

National Bank's capital costs

Item No.	Parameter	2006	2007	KZT mln Difference	
				(+,-)	(%)
1	Construction		0.3	0.3	
2	Reconstruction and extension of working facilities		30.0	30.0	
3	Capital repair	33.0	105.7	72.7	3.2 times
4	Purchase of fixed assets	213.4	766.8	553.4	3.6 times
5	Purchase of intangible assets	390.0	142.0	-248.0	-63.6
6	Other costs	0.0	22,534.0	22,534.0	
	Total capital costs	636.4	23,578.8	22,942.4	37 times

Attachment 4 to section X sub-section 10.5

Performance of the National Bank's organization in 2007

KZT mln													
No.	Name	Profits			Costs			Corporate income tax			Net profit (loss) after taxation		
		2006	2007	Growth (decrease), %	2006	2007	Growth (decrease), %	2006	2007	Growth (decrease), %	2006	2007	Growth (decrease), %
	Total	13,442.8	14,394.4	7.1	8,355.3	9,892.4	18.4	1,351.1	1,265.3	-6.3	3,736.4	3,236.7	-13.4
	Republican State Enterprises	8,775.1	10,209.2	16.3	6,723.5	8,074.9	20.1	568.2	682.2	20.1	1,483.4	1,452.1	-2.1
1	KM	2,583.8	2,949.1	14.1	2,105.3	2,467.1	17.2	133.7	150.9	12.9	344.8	331.1	-4.0
2	KCIP	1,388.7	1,455.7	4.8	689.2	885.3	28.5	260.1	219.4	-15.6	439.4	351.0	-20.1
3	BSB	264.3	272.3	3.0	239.9	247.6	3.2	6.1	6.8	11.5	18.3	17.9	-2.2
4	SC ⁹	616.3	-	-	579.2	-	-	13.4	-	-	23.7	-	-
5	BF	3,922.0	5,532.1	41.1	3,109.9	4,474.9	43.9	154.9	305.1	97.0	657.2	752.1	14.4
	Joint Stock Companies	4,667.7	4,185.2	-10.3	1,631.8	1,817.5	11.4	782.9	583.1	-25.5	2,253.0	1,784.6	-20.8
1	KFDA } FGSV } KAC ¹⁰ } Q-BRO ¹¹ } RoK NB's share is 100%	943.7	699.2	-25.9	437.4	249.9	-42.9	-0.5	-0.5	0.0	506.8	449.8	-11.2
2		46.2	60.5	31.0	41.7	41.3	-1.0	-1.4	1.6	1.1 times	5.9	17.6	3 times
3		17.7	20.1	13.6	18.3	8.8	-51.9	-	-	-	-0.6	11.3	19 times
4		-	4.7	-	-	31.5	-	-	-	1.4	-	-	-28.2
5	NPC ¹² (RoK NB's share is 66.9%)	46.1	32.4	-29.7	155.3	112.8	-27.4	3.8	-	-	-113.0	-80.4	-28.9
6	'GNPF' APF (RoK NB's share is 57.6%)	3,614.0	3,368.3	-6.8	979.1	1,353.1	38.2	781.0	578.9	-25.9	1,853.9	1,436.3	-22.5
7	NAC ¹³ (RoK NB's share is 50%)	-	-	-	-	20.1	-	-	1.7	-	-	-21.8	-

⁹ In accordance with Resolution No. 188 of National Bank's Board of Director dated November 27, 2006, 'SC' RSE is liquidated on December 29, 2006.

¹⁰ By resolution No. 4 of shareholder dated October 17, 2007 Kazakhstan Actuarial Center, JSC is liquidated.

¹¹ Q-BRO Reserve Center of the RoK NB, JSC is formed in accordance with Resolution No. 51 of the Board of the National Bank dated April 30, 2007.

¹² National Processing Center, JSC was gifted to the Ministry of State Assets and Privatization of the RoK Ministry of Finance in accordance with Resolution No. 108 of the Board of the National Bank dated September 24, 2007.

¹³ National Analytic Center at the RoK Government and National Bank, JSC is formed in accordance with Resolution No. 762 of the RoK Government dated September 3, 2007.